

1341

United States

1341

Circuit Court of Appeals

For the Ninth Circuit.

SPOKANE & EASTERN TRUST COMPANY, a
Corporation,

Appellant,

vs.

UNITED STATES STEEL PRODUCTS COM-
PANY, a Corporation,

Appellee.

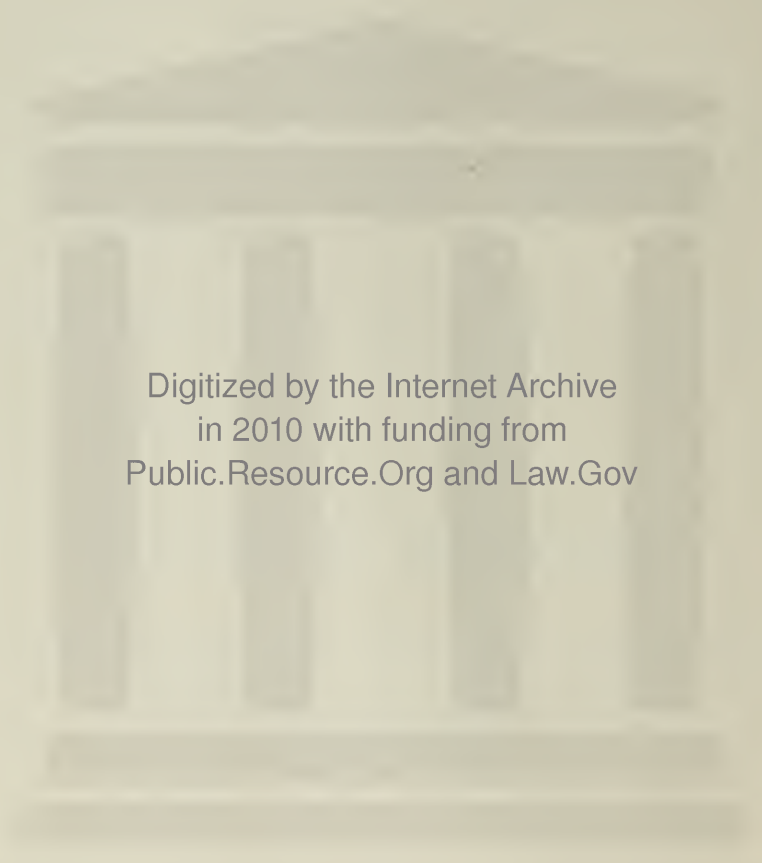
Transcript of Record.

Upon Appeal from the United States District Court for
the Eastern District of Washington,
Southern Division.

FILED

MAR 5 - 1923

F. D. MANDATORY
JAMES



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In the District Court of the United States for the
Eastern District of Washington, Southern
Division.

No. 881.

UNITED STATES STEEL PRODUCTS COM-
PANY, a Corporation,

Plaintiff,

vs.

SPOKANE AND EASTERN TRUST COM-
PANY, a Corporation, CENTRAL BANK
AND TRUST COMPANY, a Corporation,
and E. L. FARNSWORTH, as Director of
Taxation and Examination of the State of
Washington,

Defendants.

Complaint.

Comes now the plaintiff and complains of the de-
fendants and alleges as follows:

I.

That the plaintiff is and during all the times
hereinafter mentioned has been a corporation duly
organized and existing under and by virtue of the
laws of the State of New Jersey, and a citizen and
resident of said State of New Jersey, and located
and doing business therein, and was not at any of
said times and is not now a citizen or resident of
the State of Washington.

II.

That the defendant, Spokane and Eastern Trust
Company, is and during all the times herein men-

tioned has been and is now a corporation duly organized and existing under and by virtue of the laws of the State of Washington, and a citizen of the State of Washington, and doing business in the City of Spokane in said State, and a resident and inhabitant of the Eastern District of Washington. That the defendant Central Bank and Trust Company during all the times herein mentioned has been and is now a corporation duly organized and existing under and by virtue of the laws of the State of Washington, and a citizen of the State of Washington, and doing business in the City of Yakima in said State, and a resident and inhabitant of the Eastern District of [2*] Washington, Southern Division. That the defendant E. L. Farnsworth is the Director of Taxation and Examination of the State of Washington and a citizen of the State of Washington, and a resident and inhabitant of the Eastern District of Washington. That the matter in controversy in this action, exceeds, exclusive of interest and costs, the sum and value of three thousand dollars (\$3,000.00).

III.

That on the 18th day of January, 1921, Yakima Hardware Company, being then indebted to this plaintiff in an amount exceeding \$47,928.74, drew its check for said amount on the Yakima Trust Company, a banking institution of the City of Yakima, Washington, payable to the order of this plaintiff and delivered said check to this plaintiff and this plaintiff thereupon became the owner

*Page-number appearing at foot of page of original certified Transcript of Record.

and holder thereof. That on the 19th day of January, 1921, this plaintiff was, and for a long time previous thereto had been, a customer of the Seattle National Bank, a national banking association of the city of Seattle, in the State of Washington, having deposit account therein, and on said last-named day this plaintiff endorsed said check payable to the order of the Seattle National Bank and delivered the same to the said Seattle National Bank for collection and deposit to the credit of the plaintiff, and the said Seattle National Bank thereupon undertook the collection of said check for the account of the plaintiff. That said Seattle National Bank upon the receipt of said check from this plaintiff agreed with this plaintiff to credit this plaintiff with the proceeds of said check when and if such proceeds should be actually received by said Seattle National Bank and not otherwise.

IV.

That upon the receipt of said check by the Seattle National Bank as aforesaid, it forwarded the same by mail for collection and immediate returns, for the account of this plaintiff, to the defendant Central Bank and Trust Company, a banking corporation of [3] the city of Yakima, which latter bank received said check on the 20th day of January, 1921; and the Central Bank and Trust Company in turn delivered, on said last-named day, said check for collection to Yakima Valley Bank, a banking corporation of said City of Yakima, and the said Yakima Valley Bank duly

presented said check for payment to said Yakima Trust Company and the same was paid on the 21st day of January, 1921, in full by the Yakima Trust Company to the Yakima Valley Bank; and the Yakima Valley Bank on said last-named day turned over all the proceeds so received by it from the collection of said check to the Central Bank and Trust Company, which received the same for this plaintiff. That the proceeds so received by the defendant Central Bank and Trust Company were in the form of certain drafts and bills of exchange.

V.

That when said Central Bank and Trust Company received said check, and for a long time prior thereto and at the time when it received the proceeds from the collection of said check, and at all times subsequent thereto, the said Central Bank and Trust Company was insolvent and was during all said times known to be insolvent by all of its officers and was during all of said times known to be insolvent by the defendant Spokane and Eastern Trust Company. That nevertheless the defendant Central Bank and Trust Company on the 21st day of January, 1921, endorsed and delivered by mail the drafts and bills of exchange so received by it to the defendant Spokane and Eastern Trust Company, which collected all of said drafts and bills of exchange in full and received not later than the 24th day of January, 1921, the money called for by the same, aggregating an amount in excess of the proceeds of plaintiff's said check. That on

said last-named day, and for a long time prior thereto, the defendant Central Bank and Trust Company was indebted in a large amount to the defendant Spokane and Eastern Trust Company, [4] and the latter appropriated to its own use all the funds so transmitted to it, to wit: the proceeds of said draft and bills of exchange and belonging to this plaintiff, by applying the whole thereof to the payment and liquidation *pro tanto* of said indebtedness long theretofore owing to it by said Central Bank and Trust Company, and thereby appropriated said funds belonging to this plaintiff to its own use. That at the time when the defendant Spokane and Eastern Trust Company so received said drafts and bills of exchange and at the time when it received the proceeds thereof, and at the time when it appropriated the same to its own use it had notice and knowledge that the funds so received by it were the proceeds theretofore received by the defendant Central Bank and Trust Company from the collection of plaintiff's said check as aforesaid. That on the 21st day of January, 1921, the defendant Central Bank and Trust Company collected certain other checks drawn on banks in Yakima and theretofore mailed to it by said Seattle National Bank for collection and the amount so collected, together with the amount of plaintiff's check, aggregated the sum of \$51,188.04, which the said Central Bank and Trust Company was bound to remit to said Seattle National Bank. That for the purpose of making such remittance the defendant Central Bank and

Trust Company transmitted, on said last-named date, to defendant Spokane and Eastern Trust Company, funds which together with said drafts and bills of exchange above mentioned aggregated a sum in excess of \$51,188.04, and drew its draft for said amount on said Spokane and Eastern Trust Company in favor of Seattle National Bank and delivered the same to said Seattle National Bank, which presented the same for payment to defendant Spokane and Eastern Trust Company on the 24th day of January, 1921, and the defendant Spokane and Eastern Trust Company refused and still refuses to honor or pay the same. That the funds so transmitted to said Spokane and Eastern Trust Company by the defendant [5] Central Bank and Trust Company were transmitted for the special purpose, and no other purpose, of providing said Spokane and Eastern Trust Company with funds with which to pay said draft, all of which was known to defendant Spokane and Eastern Trust Company when it received said funds. That this plaintiff has received no part of the proceeds of its said check, nor any benefit therefrom.

VI.

That by reason of the fact that the defendant Central Bank and Trust Company was insolvent at the times aforesaid, it received the proceeds from the collection of said check as a trustee for this plaintiff and held the same in trust for this plaintiff and not otherwise, and had no right to mingle any of the funds so received with any of its other funds, or to make any disposition thereof except

to send the same to the Seattle National Bank for this plaintiff, and the sending of said proceeds to the defendant Spokane and Eastern Trust Company, as aforesaid was a breach of trust, and the defendant Spokane and Eastern Trust Company received the same with notice and knowledge of all the facts herein alleged and that the defendant Central Bank and Trust Company was holding said funds in trust, as aforesaid, and that the receipt thereof by the Spokane and Eastern Trust Company was in violation of such trust.

VII.

That by reason of the facts above stated, the defendant Spokane and Eastern Trust Company received and now holds the sum of forty-seven thousand nine hundred twenty-eight and $74/100$ (\$47,928.74) dollars as trustee for this plaintiff, but though demand has been made upon the defendant by this plaintiff to turn over and pay said sum to this plaintiff, the defendant has refused and still refuses to pay or turn over any part thereof to this plaintiff. [6]

VIII.

That on the 27th day of January, 1921, the defendant Central Bank and Trust Company, being then insolvent, closed its doors and the Bank Commissioner of the State of Washington, being thereunto duly authorized, took possession of defendant Central Bank and Trust Company as an insolvent bank, and all the assets thereof for the purpose of liquidation, and the said bank and all of its as-

sets have at all times since been and now are in the possession of said Bank Commissioner for said purpose, or in the possession of E. L. Farnsworth as Director of Taxation and Examination of the State of Washington, as hereinafter stated. That after said Bank Commissioner took possession of the defendant Central Bank and Trust Company, as aforesaid, the duties of said Bank Commissioner devolved by law upon the defendant E. L. Farnsworth as Director of Taxation and Examination of the State of Washington, and the said last-named defendant as such Director is now in possession of defendant Central Bank and Trust Company and all of its assets as an insolvent bank for the purposes of liquidation.

IX.

That plaintiff has no plain, speedy or adequate remedy at law.

WHEREFORE, plaintiff prays for the following relief:

That the defendant Spokane and Eastern Trust Company be declared to be a trustee for the plaintiff for the sum of forty-seven thousand nine hundred twenty-eight and $74/100$ dollars (\$47,928.74), and that plaintiff have judgment against the defendants Spokane and Eastern Trust Company and Central Bank and Trust Company, and each of them, therefor, together with six per cent interest from the 22d day of January, 1921, and for such other and further relief as to the court may seem just

and equitable in the premises, together with plaintiff's costs and disbursements herein.

PETERS & POWELL,

JOHN H. POWELL,

Attorneys for the Plaintiff.

Office and P. O. Address,

546 New York Building,

Seattle, King County, Washington.

Filed in the U. S. District Court, Eastern Dist. of Washington. May 12, 1921. Wm. H. Hare, Clerk. Edwd. E. Cleaver, Deputy. [7]



In the District Court of the United States for the Eastern District of Washington, Southern Division.

IN EQUITY—No. 881.

UNITED STATES STEEL PRODUCTS COMPANY, a Corporation,

Plaintiff,

vs.

SPOKANE AND EASTERN TRUST COMPANY, a Corporation, CENTRAL BANK AND TRUST COMPANY, a Corporation, and E. L. FARNSWORTH, as Director of Taxation and Examination of the State of Washington,

Defendants.

Answer of Defendant Spokane and Eastern Trust Company.

Spokane & Eastern Trust Company for answer to the complaint of plaintiff:

1. This defendant has no knowledge as to whether plaintiff is a corporation, and if a corporation, whether it is organized under the laws of the State of New Jersey and a consequent citizen of that state.

2. This defendant admits the citizenship and residence of the several defendants as alleged in paragraph two of plaintiff's bill and admits that the matter in controversy in this action exceeds, exclusive of interest and costs, the sum of three thousand (\$3,000) dollars.

3. This defendant is without knowledge as to the several matters and things alleged in paragraph three of plaintiff's bill.

4. This defendant denies that the Yakima Valley Bank, on the 21st day of January, 1921, or at all, turned over the proceeds received by it from the collection of the check alleged in paragraphs three and four of the bill to the Central Bank & Trust Company alleged in the bill, or that said last-named company received the same for this plaintiff. This defendant denies that the proceeds alleged in paragraph four of the bill to have been received [8] by the defendant Central Bank & Trust Company were in the form of certain drafts or bills of exchange. This defendant is without

knowledge as to the other matters and things alleged in paragraph four of plaintiff's bill.

5. This defendant admits that it refused to honor the draft drawn upon it by the Central Bank & Trust Company in favor of the Seattle National Bank, and denies each and every remaining allegation in paragraph five of said bill.

6. This defendant denies the several matters and things alleged in paragraph six of plaintiff's bill.

7. This defendant admits that it refused, and still refuses to pay over the sum of money, or any part thereof, alleged in paragraph seven of the bill, and denies each and every other allegation in said paragraph seven.

WHEREFORE, having fully answered, this defendant prays that plaintiff's bill as to it be dismissed and that it recover its costs.

F. H. GRAVES,

W. G. GRAVES,

B. H. KIZER,

Solicitors for Defendant Spokane and Eastern Trust Company.

Filed in the U. S. District Court, Eastern District of Washington. Sep. 30, 1921. Wm. H. Hare, Clerk. Edwd. E. Cleaver, Deputy. [9]

In the District Court of the United States for the Eastern District of Washington, Southern Division.

No. 881.

UNITED STATES STEEL PRODUCTS COMPANY, a Corporation,

Plaintiff,

vs.

SPOKANE AND EASTERN TRUST COMPANY, a Corporation, CENTRAL BANK & TRUST COMPANY, a Corporation, and E. L. FARNSWORTH, as Director of Taxation and Examination of the State of Washington,

Defendants.

Answer of Central Bank and Trust Company and E. L. Farnsworth, as Director of Taxation and Examination of the State of Washington.

Come now the defendants, Central Bank and Trust Company, a corporation, and E. L. Farnsworth, as Director of Taxation and Examination of the State of Washington, and for answer to the plaintiff's complaint herein allege and deny as follows:

1.

Referring to paragraph three (III) of said complaint, these defendants allege that they have no information or knowledge sufficient to form a belief as to the truth or falsity of the allegations therein contained and therefore deny the same.

2.

Referring to paragraph four (IV) of said complaint, these defendants admit that on the 20th or 21st day of January, 1921, the Central Bank & Trust Company received a certain check in the sum of \$47,928.74, drawn by the Yakima Hardware Company, payable to the plaintiff herein, which check had been forwarded to the Central Bank & Trust Company by the Seattle National Bank for collection and immediate return, and that the Central Bank & Trust Company delivered said check on the 21st day of January, 1921, for collection to the Yakima Valley Bank, a banking corporation in the city of Yakima, Washington, and that the said Yakima Valley Bank duly presented said check for payment and the same was paid by the Yakima Trust Company on the 21st day of January, 1921, but deny each and every other allegation in said paragraph IV contained.

3.

Referring to paragraph five (V) of said complaint, these defendants admit that on or about the 21st day of January, 1921, the Central Bank & Trust Company endorsed and delivered by mail certain drafts and bills of exchange to the Spokane & Eastern Trust Company, and that said drafts and bills of exchange were collected in full by said Spokane and Eastern Trust Company, and admit that on the said 21st day of January, 1921, the defendant, Central Bank & Trust Company was indebted in a large amount to the defendant, Spokane & Eastern Trust Company, and that the Spokane & Eastern Trust Company appropriated to its own

use all the funds so transmitted to it, to wit, the proceeds of the drafts and bills of exchange, and admit that on the 21st day of January, 1921, the Central Bank & Trust Company collected certain other checks drawn on Banks in Yakima and theretofore mailed to it by said Seattle National Bank for collection, and the amounts so collected, together with the sum of plaintiff's check, amounted to the sum of \$51,188.04, and admit that the Central Bank & Trust Company drew its draft in the sum of \$51,188.04, on said date on the Spokane & Eastern Trust Company in favor of the Seattle National Bank, and delivered said drafts to said Spokane & Eastern Trust Company on or about the 24th day of January, 1921, and that the defendant, Spokane & Eastern Trust Company, refused and still refuses to honor or pay the same, but deny each and every other allegation in said paragraph V contained.

4.

Referring to paragraph (VI) of said complaint, these defendants deny the same and each and every allegation therein contained.

5.

Referring to paragraph seven (VII) of said complaint, these defendants deny the same and each and every allegation therein contained.

6.

Referring to paragraph eight (VIII) of said complaint, these defendants admit that on the 27th day of January, 1921, the Bank Commissioner of the State of Washington, being thereto duly author-

ized, took possession of the defendant, Central Bank & Trust Company, and all of the assets thereof for the purpose of liquidation, and that said bank and all of its assets have been at all times since said times and are now in the possession of the said Commissioner and E. L. Farnsworth, as Director of Taxation and Examination of the State of Washington. That after said Bank Commissioner took possession of said defendant Central Bank & Trust Company, the duties of said Bank Commissioner devolved by law on the defendant, E. L. Farnsworth, as Director of Taxation and Examination of the State of Washington, and that said last-named defendant, as Director, is now in possession of said Central Bank & Trust Company and all of its assets, acting by and through his authorized deputy.

7.

Referring to paragraph nine (IX) of said complaint, these defendants deny the same and each and every allegation therein contained.

WHEREFORE, these defendants having fully answered plaintiff's complaint, pray that they may be dismissed from said cause and that they have and recover their costs and disbursements herein.

R. J. VENABLES,

Attorney for Defendants, Central Bank & Trust Company and E. L. Farnsworth, as Director of Taxation and Examination of the State of Washington.

And H. B. RIGG,
Of Counsel.

State of Washington,
County of Yakima,—ss.

Harry Coonse, being first duly sworn, on oath deposes and says:

That he is the Special Deputy Supervisor of Banking of the State of Washington engaged in liquidating the Central Bank and Trust Company, a corporation, one of the defendants in the above-entitled action; and that he makes this verification for and on behalf of said defendant being authorized so to do; that he has read the foregoing answer, knows the contents thereof and that the same are true as he verily believes.

(Signed) HARRY COONSE.

Subscribed and sworn to before me this 18th day of July, 1921.

L. HEILMAN,

Notary Public in and for the State of Washington,
Residing at Yakima, Wash.

Due and legal service of the within answer is hereby admitted and copy received in Yakima, Washington, this — day of July, 1921.

[Endorsed]: Filed in the U. S. District Court, Eastern District of Washington. Dec. 23d, 1921. Wm. H. Hare, Clerk. Edwd. E. Cleaver, Deputy.

United States of America,
Eastern District of Washington,—ss.

I, Alan G. Paine, Clerk of the District Court of the United States for the Eastern District of Wash-

ington, DO HEREBY CERTIFY that I have hereby compared the foregoing copy with the original answer of defendants Central Bank & Trust Company and E. L. Farnsworth, as Director of Taxation and Examination of the State of Washington in the foregoing entitled cause, now on file and of record in my office at Yakima, Washington, and that the same is a true and perfect transcript of said original and of the whole thereof.

WITNESS my hand and the seal of said Court this 17th day of February, A. D. 1923.

[Seal]

ALAN G. PAINE,

Clerk.

Edwd. E. Cleaver,

Deputy.

In the District Court of the United States for the Eastern District of Washington, Southern Division.

No. 881.

UNITED STATES STEEL PRODUCTS COMPANY, a Corporation,

Plaintiff,

vs.

SPOKANE AND EASTERN TRUST COMPANY, a Corporation, CENTRAL BANK AND TRUST COMPANY, a Corporation, and E. L. FARNSWORTH as Director of Taxation and Examination of the State of Washington, Defendants.

Memorandum.

PETERS & POWELL, Attorneys for the Plaintiff.
GRAVES, KIZER & GRAVES, Attorneys for the
Defendant Spokane and Eastern Trust Com-
pany.

RUDKIN, District Judge.

The facts in this case as set forth in the complaint were thus summarized in a memorandum heretofore filed on motion to dismiss: On the 18th day of January, 1921, the Yakima Hardware Company of Yakima was indebted to the plaintiff in the sum of \$47,928.74, and drew its check for that amount on the Yakima Trust Company, a banking institution of Yakima, payable to the order of the plaintiff and delivered the same to the plaintiff. At that time and for a long time prior thereto the plaintiff was a customer of the Seattle National Bank, having a deposit account therein, and on the 19th day of January, 1921, the plaintiff endorsed the check thus received from the Hardware Company payable to the order of the Seattle National Bank for collection and deposit to the credit of plaintiff. The Seattle National Bank thereupon undertook the collection of the check for the account of the plaintiff and upon receipt of the same agreed to credit the plaintiff with the proceeds of the check as soon as such proceeds should be actually received by it, and not otherwise. [10] Upon receipt of the check the Seattle National Bank forwarded it by mail for collection and immediate

return for the account of the plaintiff to the Central Bank and Trust Company of Yakima. The latter bank received the check on the 20th day of January, 1921, and in turn, on the same day, delivered the same for collection to the Yakima Valley Bank of Yakima. The Yakima Valley Bank thereupon presented the check for payment to the Yakima Trust Company, and the same was paid in full. The Yakima Valley Bank then turned over the proceeds so received by it to the Central Bank and Trust Company in the form of drafts and bills of exchange, and the defendant Central Bank and Trust Company endorsed and delivered the drafts and bills of exchange thus received to the defendant Spokane and Eastern Trust Company and drew its draft upon the latter for the sum of \$51,188.04 in favor of the Seattle National Bank to cover the amount of the check received from the plaintiff, and other items. The funds thus transmitted to the Spokane and Eastern Trust Company by the Central Bank and Trust Company were so transmitted for the special purpose of providing the Spokane and Eastern Trust Company with funds with which to pay the draft and for no other purpose, all of which was well known to the Spokane and Eastern Trust Company when such funds were received. This draft was presented for payment to the Spokane and Eastern Trust Company on the 24th day of January, 1921, and payment refused. During this period the defendant Central Bank and Trust Company was indebted to the Spokane and Eastern Trust Company in excess of the amount of the draft, and the

funds received to meet the draft were appropriated and applied by the Spokane and Eastern Trust Company to the payment and partial liquidation of the indebtedness of the Central Bank and Trust Company. At the time of the receipt of the first mentioned check for collection, and for a long time prior thereto, the Central Bank and Trust Company was insolvent and such insolvency was fully known to its officers and to the defendant the Spokane [11] and Eastern Trust Company.

The proof falls short of sustaining the allegations of the complaint in one respect only. While the complaint avers that the Yakima Hardware Company check was presented to the Yakima Trust Company by the Yakima Valley Bank for payment, and that the latter bank received payment in full and turned over the proceeds to the Central Bank and Trust Company in the form of drafts and bills of exchange, the proof shows that the check was in fact paid through the Yakima Clearing-house; that the Central Bank and Trust Company was not a member of that body but cleared through the Yakima Valley Bank; that the former carried a small balance with the latter; and that the drafts and bills of exchange forwarded to the Spokane and Eastern Trust Company came from the general balance in the Yakima Valley Bank on the day in question. In all other respects the allegations of the complaint are fully supported by the proof.

It further appears that the relations between the Spokane and Eastern Trust Company and the Central Bank and Trust Company were at all times very

close; that the former rediscounted all paper of the latter deemed liquid or available for that purpose; that an employee of the Spokane and Eastern Trust Company was specially employed by the Central Bank and Trust Company to look after these rediscounts; that this employee communicated daily with his former employer and kept it fully advised as to the ups and downs of the Central Bank and Trust Company, if indeed the word ups finds any place in this record; and finally warned it that if it refused payment of the draft in favor of the Seattle National Bank the Central Bank and Trust Company must close its doors and go to the wall.

Much was said on the argument about the banking laws of the state, the decisions of our Supreme Court, the commingling of funds, and the relations ordinarily existing between different [12] banks in transactions of this kind. But inasmuch as the case will doubtless go to a higher court, I will not discuss these different questions at length. Suffice it to say that after giving full consideration to the arguments of counsel and the authorities cited I am firmly convinced that under the circumstances disclosed by this record one bank should not be permitted to nurse another along in this way until it finds a favorable opportunity to seize the money of some innocent third party to square its accounts, and then abandon its nursling to the tender mercies of bank examiners and receivers. Such a course is forbidden alike by sound law and good morals. Whether the plaintiff is entitled to recover the full amount of its claim I need not discuss, as it

was admitted by counsel on the argument that it was only entitled to share *pro rata* in the proceeds of the drafts and bills of exchange.

A decree will therefore be entered in favor of the plaintiff upon that basis.

Filed in the U. S. District Court, Eastern District of Washington. May 10, 1922. Alan G. Paine, Clerk. Edwd. E. Cleaver, Deputy. [13]

In the District Court of the United States for the Eastern District of Washington, Southern Division.

No. 881.

UNITED STATES STEEL PRODUCTS COMPANY, a Corporation,

Plaintiff,

vs.

SPOKANE & EASTERN TRUST COMPANY, a Corporation, CENTRAL BANK and TRUST COMPANY, a Corporation, and E. L. FARNSWORTH, as Director of Taxation and Examination of the State of Washington, Defendants.

Stipulation Re Certain Promissory Notes and Choses in Actions.

In this cause the Court having ruled that defendant, Spokane & Eastern Trust Company, is entitled in the decree to have provision made for the return to it of all promissory notes and choses in action, being the rediscounts and securities charged

back against the Central Bank and Trust Company by the Spokane & Eastern Trust Company by the close of business on the 25th day of January, 1921, a list of which is hereto attached, the defendant Central Bank and Trust Company and E. L. Farnsworth, as Director of Taxation and Examination of the State of Washington, contest the right of defendant Spokane & Eastern Trust Company to such a provision in the decree. However, as the Court has so ruled and as it will be necessary to take some details of evidence to identify these several items, either before the Court or before the Master, and the defendant E. L. Farnsworth, as Director of Taxation and Examination of the State of Washington, and Central Bank and Trust Company object to the taking of any further evidence in that behalf, but the Court having ruled it may be taken, now without waiving the objections above expressed, or any of them, or any other objection which might be taken to the said defendants the Central Bank and Trust Company [14] and the said E. L. Farnsworth, in said respects, or any of them, but solely for the purpose of saving the time and labor of making the formal proof, **IT IS STIPULATED** that such further evidence, if taken, would show the following to be a correct list of said promissory notes and choses in action so charged back:

Spokane & Eastern Trust Company

MAKER	PAYEE	AMOUNT	DATE
Brown, C. O.	Central Bank & Trust Co.	\$4,600.00	Oct. 25, 1920
Interest to Jan. 25, 1921		.90	
Paddock, H.	"	1,500.00	Dec. 20, 1920
Interest to Jan. 25, 1921		1.75	
McDermid, A. A. & McDermid, R. C.	"	500.00	Dec. 20, 1920
Interest to Jan. 25, 1921		.58	
Baldozer, A. E.	"	1,100.00	Dec. 20, 1920
Interest to Jan. 25, 1921		1.22	
Kimura, J.	"	3,000.00	Dec. 23, 1920
Interest to Jan. 25, 1921		1.75	
Sunset Fruit & Produce Co.	"	4,000.00	Dec. 23, 1920
Interest to Jan. 25, 1921		2.33	
Small, E. S.	"	5,500.00	Dec. 23, 1920
Interest to Jan. 25, 1921		3.21	
K. T. Produce Co.	"	3,000.00	Nov. 18, 1920
Interest to Jan. 25, 1921		4.67	
Campbell, M. B.	"	2,200.00	Dec. 17, 1920
Interest to Jan. 25, 1921		3.42	

Dated this 24th day of July, 1922.

GRAVES, KIZER & GRAVES,
Attorneys for Spokane & Eastern Trust Company.

R. J. VENABLE and
H. B. RIGG, Of Counsel,
Attorneys for Central Bank & Trust Company.

PETERS & POWELL,
Attorneys for United States Steel Products Com-
pany.

Filed in the U. S. District Court, Eastern District
of Washington. Aug. 2, 1922. Alan G. Paine,
Clerk. Edwd. E. Cleaver, Deputy. [15]

In the District Court of the United States for the
Eastern District of Washington, Southern
Division.

No. 881.

UNITED STATES STEEL PRODUCTS COM-
PANY, a Corporation,

Plaintiff,

vs.

SPOKANE & EASTERN TRUST COMPANY, a
Corporation, CENTRAL BANK AND
TRUST COMPANY, a Corporation, and E.
L. FARNSWORTH, as Director of Taxation
and Examination of the State of Washington,
Defendants.

Decree.

This cause came on to be heard at this term and was argued by counsel; and thereupon, upon consideration thereof, IT WAS ORDERED AND DECREED as follows, viz.:

That the United States Steel Products Company, a corporation organized and existing under the laws of the State of New Jersey, do have and recover of and from the defendant, Spokane and Eastern Trust Company, a corporation organized under the laws of the State of Washington, the sum of FORTY-FOUR THOUSAND NINE HUNDRED FORTY-THREE AND 84/100 DOLLARS (\$44,943.84), together with interest thereon at the rate of six per cent per annum from the 24th day of January, 1921, and the costs of this action.

That such proportion of any amounts which shall hereafter be paid by the Supervisor of Banking of the State of Washington to the plaintiff herein on account of the liability of the defendant, Central Bank and Trust Company, for the proceeds of the check for which this action is prosecuted, as the whole amount of this judgment against the defendant Spokane and Eastern Trust Company bears to the whole amount of such proceeds, to wit: \$47,928.74, shall constitute a credit upon and a payment *pro tanto* of this judgment.

IT IS FURTHER ORDERED AND DECREED, that each and every of the credits given by the defendant Spokane and Eastern Trust Company

[16] to the defendant Central Bank & Trust Company, on or about the 25th day of January, 1921, by the application of the proceeds of plaintiff's said check thereto be cancelled, and that the defendants Central Bank and Trust Company and E. L. Farnsworth, as Director of Taxation and Examination of the State of Washington, upon the payment of this judgment by the defendant Spokane and Eastern Trust Company, return and deliver to the defendant Spokane and Eastern Trust Company all of those promissory notes and choses in action (and any note or chose in action heretofore or hereafter taken by way of renewal or substitute for any of the same) now in the possession of said Farnsworth, as such Director, which were surrendered by the said Spokane and Eastern Trust Company to the said Central Bank and Trust Company on or about the 25th day of January, 1921, in consideration of such credits. In case any of such promissory notes or choses in action, or any renewal or substitute thereof, has been collected, or shall hereafter be collected, by the said defendant Farnsworth, as such Director, the proceeds so collected and to be collected by him (excluding, however, all payments made by offsetting the deposit account of the maker) are hereby ordered and decreed to be paid by him to the defendant Spokane and Eastern Trust Company out of any funds now in his possession or which may hereafter come into his possession as assets of said Central Bank and Trust Company, after deducting therefrom such proportion thereof as the

amount of any dividend or dividends, if any, heretofore declared by him out of the assets of said Central Bank and Trust Company upon any claim or claims of the defendant, Spokane and Eastern Trust Company, and the plaintiff, United States Steel Products Company, shall in the aggregate bear to the whole amount of dividends heretofore declared by him to the creditors of said defendant, Central Bank and Trust Company.

IT IS FURTHER ORDERED AND DECREED, that until this decree shall be performed the said E. L. Farnsworth, as such director, shall continue to hold the notes and choses in action and moneys which this [17] decree directs to be paid to the Spokane and Eastern Trust Company subject to this decree, and may in the meantime collect, in whole or in part, any such notes or choses in action, or accept renewals thereof, and shall hold any moneys so collected likewise subject to this decree.

Said promissory notes and choses in action which, or the proceeds, renewals or substitutes of which, are hereby directed to be turned over or paid to said Spokane and Eastern Trust Company are as follows:

MAKER	PAYEE	AMOUNT	DATE
Brown, C. O.	Central Bank & Trust Co.	\$4,600.00	Oct. 25, 1920
Interest to Jan. 25, 1921		.90	
Paddock, H.	"	1,500.00	Dec. 20, 1920
Interest to Jan. 25, 1921		1.75	
McDermid, A. A. &	"	500.00	Dec. 20, 1920
McDermid, R. C.	"	.58	
Interest to Jan. 25, 1921		1,100.00	Dec. 20, 1920
Baldozer, A. E.	"	1.22	
Interest to Jan. 25, 1921		3,000.00	Dec. 23, 1920
Kimura, J.	"	1.75	
Interest to Jan. 25, 1921		4,000.00	Dec. 23, 1920
Sunset Fruit & Produce Co.	"	2.33	
Interest to Jan. 25, 1921		5,500.00	Dec. 23, 1920
Small, E. S.	"	3.21	
Interest to Jan. 25, 1921		3,000.00	Nov. 18, 1920
K. T. Produce Co.	"	4.67	
Interest to Jan. 25, 1921		2,200.00	Dec. 17, 1920
Campbell, M. B.	"	3.42	
Interest to Jan. 25, 1921			

Dated this 25 day of July, 1922.

FRANK H. RUDKIN,
Judge.

Filed in the U. S. District Court, Eastern District of Washington, Jul. 27, 1922. Alan G. Paine, Clerk. Edwd. E. Cleaver, Deputy. [18]

In the District Court of the United States for the Eastern District of Washington, Southern Division.

No. 881.

UNITED STATES STEEL PRODUCTS COMPANY,

Plaintiff,

vs.

SPOKANE & EASTERN TRUST COMPANY,
CENTRAL BANK & TRUST COMPANY
and E. L. FARNSWORTH, as Director of
Taxation and Examination of the State of
Washington,

Defendants.

**Stipulation Re Signing and Certifying Statement
of Evidence.**

IT IS HEREBY STIPULATED AND AGREED by and between the parties hereto that the proposed statement of the evidence hereto attached may be signed and certified by the Judge of the above-entitled court as the statement of the evidence in this cause to be used on appeal from the

final judgment herein in the United States Circuit Court of Appeals of the Ninth Circuit.

Dated this 5th day of December, 1922.

PETERS & POWELL,

Attorneys for Plaintiff.

GRAVES, KIZER & GRAVES,

Attorneys for Defendant, Spokane & Eastern Trust Co.

H. B. RIGGS,

R. J. VENABLES.

Attorneys for Defendants, Central Bank & Trust Co. and E. L. Farnsworth as Director of Taxation and Examination of the State of Washington. [23]

Filed in the U. S. District Court Eastern Dist. of Washington. Jan. 6, 1923. Alan G. Paine, Clerk. Edwd. E. Cleaver, Deputy. Ent. in B. S. & I, Vol. 1, page 681.

In the District Court of the United States for the Eastern District of Washington, Southern Division.

UNITED STATES STEEL PRODUCTS COMPANY,

Plaintiff,

vs.

SPOKANE & EASTERN TRUST COMPANY,
CENTRAL BANK & TRUST COMPANY
and E. L. FARNSWORTH, as Director of
Taxation and Examination of the State of
Washington,

Defendants.

Statement of Evidence to be Used on Appeal.

Upon the trial of this cause before the Honorable F. H. Rudkin, Judge of the above-entitled court, the following evidence was introduced on behalf of plaintiff and defendants respectively.

PLAINTIFF'S EVIDENCE.**Testimony of E. G. Townsan, for Plaintiff.**

E. G. TOWNSAN testified that he was treasurer of the Yakima Hardware Company, and that that company, in January, 1921, made a check in settlement of an account with plaintiff and mailed such check to plaintiff at Seattle; that the check was subsequently returned to his company and the account of the Yakima Hardware Company was charged with the amount of the check by the Yakima Trust Company. The check was received in evidence as "Plaintiff's Exhibit 1." It is for \$47,928.74, drawn by the Yakima Hardware Company upon the Yakima Trust Company, and payable to the United States Steel Products Company.

[24]

Testimony of Edward Bray, for Plaintiff.

EDWARD BRAY testified that he was plaintiff's cashier at Seattle; that he received the check marked "Plaintiff's Exhibit 1" and deposited it with the Seattle National Bank to plaintiff's credit in the regular way. The deposit slip shown the witness was the one under which the check was de-

(Testimony of Edward Bray.)

posited and was received in evidence. There was printed upon the deposit slip the following:

“In receiving checks or other items on deposit payable elsewhere than in Seattle this bank assumes no responsibility for the failure of any of its direct or indirect collecting agents, and shall only be held liable when proceeds in actual funds or solvent credits shall have come into its possession. Under these conditions items previously credited may be charged back to the depositor’s account.”

Testimony of J. H. Miner, for Plaintiff.

J. H. MINER testified that he was assistant cashier of the Seattle National Bank. Being shown Plaintiff’s Exhibit 1, he stated that the endorsement on the back of it was the regular endorsement stamp for collection of out of town items; that the check was enclosed in the regular cash remittance letter of 19th January, 1921, addressed to the Central Bank & Trust Company of Yakima and placed in the mail. The witness was shown a carbon copy of the remittance letter in which the check was forwarded to the Central Bank & Trust Company and identified it. The remittance letter contained the following words:

“We enclose for returns the following cash items: Do not protest items \$25.00 or less, or items which bear this stamp . . . N. P. 19-7 or similar authority of a preceding endorser, or the words . . . No. Pro. Wire nonpayment of items \$250.00 or over. Deliver documents only on pay-

(Testimony of J. H Miner.)

ment of drafts attached, unless otherwise instructed.

H. C. MacDONALD,
Cashier."

The witness further testified that the remittance letter went to the Central Bank & Trust Company on 19th January and that the Seattle National Bank had never received any return from that remittance; that the total amount of the remittance letter was \$51,188.04, the items represented being checks drawn on various Yakima banks; that the Central Bank & Trust Company sent a draft to the Seattle National Bank in payment of the remittance letter; that the draft was presented in due course to the Spokane & Eastern Trust Company and payment refused; that the presentment was made on 26th January, 1921. The draft was for \$51,188.04 drawn upon the Spokane & Eastern Trust Company by the Central Bank & [25] Trust Company, payable to the Seattle National Bank and was protested on account of nonpayment on 26th January, 1921. [26]

The witness further testified that when the remittance letter was sent by the Seattle National Bank to the Central Bank & Trust Company that the Central Bank was not charged with the items, but there was simply a memorandum made that the letter was outstanding unremitted for.

On cross-examination the witness testified that the remittance letter, Exhibit 3, contained several items going to make up the amount of \$51,188.04 in

(Testimony of J. H. Miner.)

various sums running from 72¢ to \$47,928.74; that the last-named item constituted the item in suit, being the check of the Yakima Hardware Company to plaintiff, and such check was remitted in the cash remittance letter with the other items. The witness testified that he understood that there was a suit on the part of other people interested in the items included in this cash letter which was pending in the Superior Court for Yakima County against the Central Bank & Trust Company and the Spokane & Eastern Trust Company to establish a preference for the remainder of the items and to charge the Spokane & Eastern Trust Company therewith, and that the items included in that suit were the remainder of the items included in the cash remittance letter of 11th January which the Seattle National Bank had sent to the Central Bank & Trust Company.

Testimony of George M. Lemon, for Plaintiff.

GEORGE M. LEMON testified that in January, 1921, he was cashier of the Central Bank & Trust Company; that he had authority to sign drafts and his signature was appended to the draft of \$51,188.04. He testified that he remembered the remittance letter of 19th January, 1921, from the Seattle National Bank and the check for \$47,829.74 in favor of plaintiff drawn on the Yakima Trust Company by the Yakima Hardware Company, and that such check was collected; that the check came in some time before the morning of 21st

(Testimony of George M. Lemon.)

January and the checks were sorted out, and those on other banks in the city were listed and taken over to the Yakima Valley Bank, the clearing agent for the Central Bank & Trust Company, and deposited in the Yakima Valley Bank for credit to the account of the Central Bank & Trust Company; that the Yakima Valley Bank [27] cleared those checks during the regular day's business, and this check, among others, was paid; that the Central Bank & Trust Company was not a member of the Yakima Clearing-house, but cleared these items through the clearing-house through the Yakima Valley Bank, and that claims against the Central Bank & Trust Company coming through the clearing-house were presented to it through the Yakima Valley Bank; that the Central Bank & Trust Company received from Yakima Valley Bank on January 21, 1921, on account of the balance in its favor on that morning's clearings, exchange from the Yakima Valley Bank amounting to \$48,000.00; \$3,000 was drawn on the Fidelity National Bank of Spokane and \$45,000 was drawn on the Bank of California of Tacoma, and that those drafts were sent to the Spokane & Eastern Trust Company for credit to the account of the Central Bank & Trust Company; that the Central Bank & Trust Company drew a draft on the Spokane & Eastern Trust Company for the total amount of the cash remittance sent to by the Seattle National Bank, and that draft was mailed to the Seattle National Bank, being Plaintiff's Exhibit 4; that on

(Testimony of George M. Lemon.)

21st January the Central Bank & Trust Company presented other items for collection through the clearing-house and delivered them to the Yakima Valley Bank for clearance; that the total of the actual clearings of the Central Bank & Trust Company on that date was \$7,874.55; that those were checks which were drawn locally on local banks; that adding those checks to the amount of the remittance letter would bring the sum total of the items presented by the Central Bank & Trust Company to \$58,986.16; that there were certain items against the Central Bank & Trust Company presented to it through the clearing-house by presenting them to the Yakima Valley Bank as its clearing agent, amounting to \$9,443.32; and the difference between the amount of items presented by the Central Bank & Trust Company and the amount of the items presented against it on that morning was \$49,585.93; that when the Central Bank & Trust Company sent to the Yakima Valley Bank to get the money, it got but \$48,000, and that left a balance in the Yakima Valley Bank to its credit of \$1,585.93; that the drafts aggregating \$48,000 were received on the same day; that when the Yakima Valley Bank received through the clearings checks drawn on the Central Bank & Trust [28] Company it brought them over to the Central Bank & Trust Company, after settling with the clearing-house, and the Central Bank & Trust Company gave a draft drawn on the Yakima Valley Bank in settlement of the clearings, which

(Testimony of George M. Lemon.)

draft was charged to the account of the Central [29] Bank & Trust Company on the books of the Yakima Valley Bank; that on that particular morning the Yakima Valley Bank brought over some \$9400 of items drawn against the Central Bank & Trust Company and the Central Bank and Trust Company gave it a check drawn on the Yakima Valley Bank for that amount; that the clearings were brought over between 10:30 and 11:00 o'clock every day; that on the particular day the Central Bank & Trust Company presented about \$58,000 of items and got from them only \$48,000, the balance being carried in an account with the Yakima Valley Bank and some balance being left to keep its account from day to day; that when the Central Bank & Trust Company took other items over to the Yakima Valley Bank it made a deposit slip and duplicate, and the duplicate slip was initialed as being a receipt of the deposit, practically the same thing as is done with individual deposits. The witness was shown a letter addressed by the Central Bank & Trust Company to the Spokane & Eastern Trust Company under date of 21st January, 1921, the first two items being \$45,000 and \$3,000, and the sum total of the remittances made that day to the Spokane & Eastern Trust Company, being \$48,594.60. The letter was received in evidence and marked "Plaintiff's Exhibit 5."

On cross-examination the witness testified that the Central Bank & Trust Company always kept some balance with the Yakima Valley Bank, the

(Testimony of George M. Lemon.)

amount fluctuating from time to time; that he didn't know whether it was required to do so by the Valley Bank or not, but that it had a balance there all the time; that when any deposits were made the account of the Central Bank & Trust Company would be increased, and then that account would be drawn against and decreased, so that it would fluctuate just as an individual's account with any bank fluctuates by deposits being made and checks drawn against it; that in the regular course of business it would take over on each day the items which it had in its possession drawn against other banks in the city of Yakima to the Valley Bank, and that through the clearing-house the Valley Bank would present those items and receive the cash, or its equivalent, upon them, and that the Yakima Valley Bank would also receive, through the clearing-house, all items held by other banks in Yakima against the Central Bank & Trust Company; that the [30] Valley Bank gave the Central Bank & Trust Company credit immediately upon presenting the total amount of the items for the full amount of such items, and that the Central Bank & Trust Company would give the Valley Bank a draft drawn upon itself to cover the amount of items which the Valley Bank had received against the Central Bank & Trust Company, and at the end of the day the balance thus struck would be a credit on the books of the Valley Bank in favor of the Central Bank & Trust Company; that such balance was subject to the disposal of the Central Bank & Trust Company in any way it saw fit, sub-

(Testimony of George M. Lemon.)

ject always to the custom to keep some kind of a balance there; that on 21st January, prior to the taking over to the Valley Bank the items of that day, amounting to \$58,986.16, the Central Bank & Trust Company had a balance with the Valley Bank of \$43.09; that against the total credit which was given the Central Bank & Trust Company on that day it drew a draft on the Yakima Valley Bank of \$9,443.32, leaving a credit with the Yakima Valley Bank of \$49,585.93; that the Central Bank & Trust Company then bought two drafts, one for \$45,000 on a bank in Tacoma and one for \$3,000 on a bank in Spokane; that it took those two drafts and added to it several other items of small amount and transmitted the whole thereof, amounting to \$48,594.60, to the Spokane & Eastern Trust Company to be deposited to the credit of the Central Bank & Trust Company; that the Central Bank & Trust Company then had an account with the Spokane & Eastern Trust Company, and for a long time had had a standing account with the Spokane & Eastern Trust Company as its Spokane correspondent; that on 21st January, 1921, the books of the Central Bank & Trust Company showed that its account with the Spokane & Eastern Trust Company was overdrawn \$16,035.76; that the Central Bank & Trust Company had an overdraft of \$17,458 with the Spokane & Eastern Trust Company before it drew the large draft, so that when the remittance of \$48,000 reached the Spokane & Eastern Trust Company the amount standing on its

(Testimony of George M. Lemon.)

books to the credit of the Central Bank & Trust Company would be the amount of the remittance, less the overdraft, and that if the large draft which the Spokane & Eastern Trust Company protested was taken out, the Central Bank & Trust Company [31] would have an overdraft of \$16,035.76 at the Spokane & Eastern Trust Company. The witness also testified that the Central Bank & Trust Company frequently received similar cash letters to the one in proof from the Seattle National Bank and that the items were cleared through the Yakima Valley Bank in the same way that the one in question was cleared, and that after the collections had been made the Central Bank & Trust Company would draw a draft upon some bank and send it to the Seattle National Bank in payment of it; that the Seattle National Bank would be paid by drawing a draft on some other correspondent and sending it to the Seattle National Bank in payment of the items transmitted for collection; that such was the established method of doing business of the Seattle National Bank and the Central Bank & Trust Company, and that such is the customary way in which banks do business of that sort; that during the time of his connection with the Central Bank & Trust Company it had frequently sent drafts from the Yakima Valley Bank to the Spokane & Eastern Trust Company for deposit to its credit, and that it had frequently drawn drafts on the Spokane & Eastern Trust Company in favor of the Seattle National Bank in payment

(Testimony of George M. Lemon.)

of a balance that might be due, and that the transaction on this particular day was carried through in the ordinary course of business and as any other collection item was put through.

On redirect examination the witness testified that at the close of business on 21st January the Central Bank & Trust Company's account with the Spokane & Eastern Trust Company was overdrawn some \$16,000, and that if the Spokane & Eastern had paid the draft of \$51,188.04 drawn against it by the Central Bank & Trust Company and sent to the Seattle National Bank in payment of the cash letter, the account of the Central Bank & Trust Company with the Spokane & Eastern Trust Company would have been overdrawn some \$17,000; that on 20th January the account of the Central Bank & Trust Company with the Spokane & Eastern [32] Trust Company was overdrawn \$17,458.01, and that after the transaction the overdraft was \$16,035.76, and that on 21st January there were sent to the Spokane & Eastern Trust Company, in addition to this letter of \$48,596, some other items for rediscount, the total of which was \$8,094.04; that those items were charged against the account of the Spokane & Eastern Trust Company so that the remittance of 21st January, amounted to \$48,596 cash items and \$8,094.04 of notes for rediscount, a total of \$56,680.64; that those items were deposited with the Spokane & Eastern Trust Company, and a draft for \$51,188.04

(Testimony of George M. Lemon.)

drawn against them in favor of the Seattle National Bank. The deposits were necessary to help cover the draft that the Central Bank was drawing against it; that the Central Bank & Trust Company made the deposit with the Spokane & Eastern Trust Company because the Central Bank had to draw a draft of that size against some account in order to remit to the Seattle National Bank.

On recross-examination the witness testified that the books of the Central Bank and Spokane & Eastern Trust Company might not show the same state of the account on the same day; that there would be various reasons why they would not show the same amount; that there might be drafts drawn by the Central Bank against the Spokane & Eastern Trust Company which had not been received by the latter, and that it might be a week or two weeks before they would be received, that if all the items had been in, the overdraft would have been as stated by him, that he didn't know at that time whether the Spokane & Eastern would accept the items for re-discount or not, and that he didn't know whether they had accepted them or not; that under the custom of business between the two banks in some cases the Spokane & Eastern would charge re-discount items back to the Central Bank, but he didn't know whether they did it in all cases or not; that they had a right to, and sometimes they did it and sometimes they didn't; after they had done it they would notify the Central Bank of the fact;

(Testimony of George M. Lemon.)

that the drafts and other items contained in the letter of 21st January were sent to the Spokane & Eastern Trust Company for deposit; that the proceeds of drafts were certainly meant to cover the drafts which the Central Bank drew against the Spokane & Eastern Trust Company; that the drafts outstanding would be paid in the order of [33] their presentation and were expected to be paid in that way, and if some of the outstanding drafts that were on the books of the Central Bank reached the Spokane & Eastern Trust Company before the draft sent to the Seattle National Bank, they would be paid first, provided the Spokane & Eastern Trust Company would stand the overdraft.

Testimony of Charles Heath, for Plaintiff.

CHARLES HEATH testified that he was cashier of the Yakima Valley Bank in January, 1921, and remembered a transaction of clearing through that bank by the Central Bank & Trust Company on 21st January; that the witness Lemon's testimony as to the way in which clearings were made was substantially correct; that on 21st January, the Central Bank & Trust Company brought over to the Yakima Valley Bank \$58,918.93 and that the Yakima Valley Bank took over to the Central Bank items received from the Clearing-house and over the counter drawn upon the Central Bank of \$9,443.32, and that at the close of clearings on 21st January there was due from Yakima Valley Bank

(Testimony of Charles Heath.)

to the Central Bank \$49,563.93, and that it paid over to the Central Bank \$48,000 in two drafts. The witness was shown the two drafts, and stated that the one for \$3,000 had been paid on January 22d, 1921, and the one for \$45,000 had been paid on January 24th, 1921.

On cross-examination, the witness testified that when a draft drawn by one bank on another bank was sent for deposit to the credit of the sender, credit would be given on the day the draft was received, and it would only be charged back in case the draft would not ultimately be paid; that if it should not ultimately be paid, then it would be charged back; that under the clearing-house rules, where a member of the clearing-house clears for a nonmember bank, the member bank guarantees the items of the nonmember bank the same as it would the items of any other customer, and this was the rule under which the Yakima Valley Bank was clearing for the Central Bank; that it was the custom of the clearing-house banks to draw drafts in clearing wherever they were long on funds, i. e., wherever it was most convenient; that these drafts were given in settlement with the Central Bank & Trust Company for the clearings of that day, except a small balance which was left with the Yakima Valley Bank; that it was customary for a nonmember bank to carry a balance with the bank that was clearing for it. [34]

Testimony of C. E. Jolly, for Plaintiff.

C. E. JOLLY testified that he was manager of the Telephone Company at Yakima. He produced two charge tickets showing calls from Yakima to Spokane. The one of 20th January, 1921, showed a call from a person named Buckholtz to Mr. Triplett at the Spokane & Eastern Trust Company; that this was a twelve minutes conversation. It was admitted that Buckholtz was a man formerly in the employ of the Spokane & Eastern Trust Company and was in its employ at the time of the trial, and that Buckholtz was at the Central Bank & Trust Company at that time. The other ticket was for a call dated 10th January from Buckholtz to Triplett, but was cancelled by the Yakima party without an answer. There was also produced by the defendant Spokane & Eastern Trust Company at the request of the plaintiff the bill of charges rendered by the Home Telephone & Telegraph Company of Spokane to the defendant Spokane & Eastern Trust Company covering the month of January, 1921. It showed that Mr. Triplett at Spokane conversed with Mr. Buckholtz at Yakima once on January 22d, 1921, and on three different occasions on January 25, 1921, and that Mr. Rutter at Spokane conversed with Mr. Buckholtz at Yakima once on the 25th of January, 1921.

Testimony of Sikko Barghoorn, for Plaintiff.

SIKKO BARGHOORN testified that in January, 1921, he was president of the Central Bank

(Testimony of Sikko Barghoorn.)

& Trust Company; that on January 25, 1921, at 11:41 P. M. he sent from Pasco, Washington, a telegram directed to Herbert Witherspoon, Vice-president, National City Bank, Seattle, reading: "Sande suddenly decided to charge all due rediscounts to account and refuse Central drafts. Have you hypothecation agreement so surplus Liberties are securities for rediscounts. Protect your interest. Shall try to have the local concerns take it over. You can reach me there. Please inform McDonald, Seattle National." (Signed, "Bargie.") He testified that the expression "Sande" was a short term for the Spokane & Eastern, and the expression "Central draft" meant the Central Bank & Trust Company draft, and that McDonald was the cashier of the Seattle [35] National Bank; that the Seattle National Bank and the National City Bank of Seattle were correspondents of the Central Bank & Trust Company and interested in its affairs; that the Spokane & Eastern Trust Company had notified him on January 25th about half-past three that it had decided to refuse drafts drawn against it by the Central Bank & Trust Company; that Mr. Rutter and Mr. Triplett were the officers who notified him; that the reason why he asked Witherspoon to notify the Seattle National Bank was that that bank was interested in the affairs of the Central Bank & Trust Company; that he was informed by either Mr. Triplett or Mr. Rutter that there were some large drafts outstanding drawn by the Central Bank & Trust Com-

(Testimony of Sikko Barghoorn.)

pany against the Spokane & Eastern, but was not told the exact [36] amount; that the first knowledge he had of that fact was on the afternoon of the 25th January; that when Mr. Rutter, the president of the Spokane & Eastern Trust Company, informed witness that the Central Bank & Trust Company drafts would not be honored, he left for Yakima, leaving Spokane at 6:30, and the telegram was sent from Pasco while he was on his way to Yakima; that he came to Yakima because the Central Bank & Trust Company needed additional assistance, and he went to Yakima to make arrangements locally for additional credit. The witness also testified that he knew W. F. Buckholtz; that Mr. Buckholtz went into the Central Bank & Trust Company in Yakima about the 5th or 6th of January, 1921; that the circumstances under which Mr. Buckholtz came to go with the Central Bank & Trust Company were these: The Central Bank & Trust Company was a large borrower from the Spokane & Eastern Trust Company in the form of rediscounts. Mr. Ellis, the cashier of the Central Bank, did not have a modern method of properly supplying financial statements with the notes that were sent in for rediscount, and therefore there was often a delay before the rediscounts were credited to the Central Bank, at times creating overdrafts, which was very unsatisfactory; that to eliminate that trouble he hired Mr. Buckholtz to go to Yakima and enter the employ of the Central Bank, and part of his duties were to see that the rediscounts

(Testimony of Sikko Barghoorn.)

were submitted in proper form to the Spokane & Eastern Trust Company; that Buckholtz was submitted to him upon his request to the Spokane & Eastern Trust Company for a man who was satisfactory to them; that witness was a director of the Spokane & Eastern Trust Company at that time, but ceased to be such a director on 11th January, 1921; that Buckholtz was specially charged with the interest of the Central Bank & Trust Company so far as the relations of the Spokane & Eastern were concerned; that his purpose in hiring Buckholtz was to eliminate the difficulties that had existed between the Spokane & Eastern and the Central Bank, and in that respect he had more dealings with the Spokane & Eastern than with any other institution; that Buckholtz had charge in the Central Bank of the relations between the two banks. One of the things he did was selecting the paper which was sent to the Spokane & Eastern for rediscount. [37]

On cross-examination the witness testified that when he employed Buckholtz he employed him absolutely as an employee of the Central Bank, and he was paid by the Central Bank; that he had no employment during that time from the Spokane & Eastern except to the extent that rediscounts were sent to him for collection direct; that whether he was paid for that work by the Spokane & Eastern, witness did not know; but that he paid Buckholtz such a salary as had been agreed upon for the Central Bank; that the Banking Department had writ-

(Testimony of Sikko Barghoorn.)

Wen witness a letter in December wherein they stated that Mr. Ellis, the cashier of the Central Bank, was not satisfactory to them, and that they wanted him to look out for another man, and when Buckholtz came to Yakima witness had an understanding with him that if he proved efficient he would sooner or later take Mr. Ellis' place; as soon as it could be done without making trouble. He testified further that he first became a shareholder in the Central Bank in May, 1919, becoming its president in January, 1920.

On redirect examination witness testified that Mr. Ellis was the cashier of the Central Bank to the time it closed and Mr. Buckholtz didn't have an official position; that Mr. Ellis was running it; Buckholtz was running his part of the business that was entrusted to him; that their work was not along the same line; that Ellis was supreme in his province and Buckholtz in his; that Buckholtz was to look after the rediscounts with the Spokane & Eastern, the financial statements and making collections on the notes; this applied to the notes that were rediscounted by the Spokane & Eastern and also the notes that had been given to the Central Bank. Witness didn't know whether Buckholtz' employment was ever submitted to the Board of Directors of the bank, but that he remained there from 5th January until the bank was closed on 27th January.

On recross-examination witness testified that commencing late in December and running to the

(Testimony of Sikko Barghoorn.)

time of the failure, it was of the utmost importance that the loans of the bank be collected in as rapidly as possible; that the bank had to make its liquidation; that Ellis was a little easy on enforcing payment in some instances, and that Buckholtz was put in charge of that also with directions to crowd payment just as fast as he could without doing more harm than good by crowding. [38]

On redirect examination witness testified that he came to Yakima with Buckholtz when Buckholtz first went into the Central Bank; that witness remained in Yakima three or four days with Buckholtz; that he went back to Spokane and came back the forepart of the following week and spent several more days; that he then went back to Spokane and took some trips out of Spokane and didn't return to Yakima until the night of 25th January; that he was not present at the directors' meeting of the Spokane & Eastern on 11th January; that when he returned to Spokane after his second trip to Yakima he made a trip to Idaho and one to Colville; that he did not think there was any correspondence between himself and Mr. Buckholtz during the period Buckholtz was in the bank; at least he had none such.

There were introduced a number of letters passing between W. F. Buckholtz at North Yakima and different officers of the Spokane & Eastern Trust Company at Spokane during the month of January, 1921, the letters being put in in one bunch as "Plaintiff's Exhibit 7." They are set out at the last of this statement. [39]

There was introduced in evidence a letter bearing date 5th January, 1921, written by W. T. Triplett, secretary of Spokane & Eastern Trust Company, to B. J. Ellis, cashier of Central Bank & Trust Company, which is as follows:

“January 5, 1921.

“Mr. B. J. Ellis,
Cashier, Central Bank & Trust Company,
Yakima, Washington.

Dear Mr. Ellis:

Referring to your letter of January 3,—we have after talking with Mr. Barghoorn, placed to your credit \$12,681.05 to cover the proceeds of the rediscount notes sent by you.

Two of the notes are not altogether satisfactory,—namely those of J. L. Parker and the Western Fruit & Produce Company, but as Mr. Buchholtz, who is one of our right hand men, is accompanying Mr. Barghoorn to-night, he will endeavor to obtain substitution of other paper.

We have taken them in the meantime in order to help you out.

Sincerely,

W. T. TRIPLETT.

(Signed) W. T. TRIPLETT,

Secretary.

R.

Enc.”

Testimony of W. F. Buchholtz, for Plaintiff.

W. F. BUCHHOLTZ was called and inquired of as to letters in his possession which he had been subpoenaed to produce. He produced a letter bearing date 10th January, 1921, written by R. L. Rutter, president of the Spokane & Eastern Trust Company, to W. F. Buchholtz, care Central Bank & Trust Company, Yakima, which reads as follows:
[40]

“January 10, 1921.

Mr. W. F. Buchholtz,
c/o Central Bank & Trust Company,
Yakima, Washington.

Dear Mr. Buchholtz:

Many thanks for the minutes (St. Joe) which you so kindly signed up and got back to us this morning. I am now sending them to Mr. Betz today.

Mr. McBride is an examiner for the Federal Reserve Bank and not for the State Banking Department, so you need have no concern regarding his examination of your institution at this time. Anyway, he has been ordered back and was to be in Spokane this morning.

I am glad to note that your apple drafts have been reduced so materially and that your float is as low as it is. It is refreshing to receive your full and complete letters and we all want to congratulate you on the strong position you are taking in this matter. If your hypothesis is correct there is no question but what we will do our part. Just

remember one thing, however, and that is that the prices of all the commodities on which you expect to realize funds are on the decline and will probable decline still further in the near future. Consequently, in urging your customers to realize, you are doing them a favor, in my opinion. Whether you are or not does not make much difference for the reason that you have got to get the money.

Conditions are not improving. In fact, they are getting worse for banks which have loans that do not show a proper ratio of quick assets to current liabilities. Bankers seem to consider their deposits are part of their capital. You know only too well that they are not. I expect to see your deposits go off still further with a possible temporary bulge from time to time.

Keep your head up and tail over the dashboard, and pray for strength!

Sincerely,

(Signed) R. L. RUTTER.

R. L. RUTTER."

V? [41]

Another letter was introduced in evidence written by W. T. Triplett, vice-president of the Spokane & Eastern Trust Company, to the receiver of the Central Bank & Trust Company, dated February 2d, 1921, which is as follows:

“February 2, 1921.

The Receiver, Central Bank & Trust Co.,
Yakima, Washington.

Dear Sir:

On December 29, 1920, this bank rediscounted a note of W. E. Turner for \$1,050.00 for the accommodation of the Central Bank & Trust Company, with the understanding that the note was fully secured by liberty bonds, and war savings stamps, and that the Central Bank & Trust Company was to hold these in trust for us.

The security has never been forwarded to us, nor was it turned over to Mr. Buchholtz while he was there. We wish you would take this up for us, and if possible forward the security to us.

If the bonds are not in your possession, we would greatly appreciate it if you will ascertain their present location, and advise us accordingly; also any further factors which may have a bearing on this particular loan.

You will find us ready and willing to assist you in any way possible to straighten up any matters which may come up, and we invite your correspondence in connection with it.

On the other hand, there are some items on which we may require some assistance and information on your part, which will be duly appreciated.

Sincerely,

W. T. TRIPLETT.

(Signed) W. T. TRIPLETT,

Vice-president.” [42]

(Testimony of W. F. Buchholtz.)

The witness testified that so far as he knew the letters produced were all the correspondence between himself and the Spokane & Eastern during the time he was in the Central Bank; that of the letters written by him, a few were dictated to a stenographer, the remainder were written by himself.

Testimony of Fred Stevens, for Plaintiff.

FRED STEVENS testified that he was one of the bank examiners attached to the State Banking Department for the State of Washington and was engaged in that work in January, 1921; that he came to Yakima on 25th January, 1921, at the request of the Supervisor of Banking; that with other examiners he had been engaged in the work of examining the Spokane & Eastern Trust Company at Spokane, and on the 24th received a call from the Supervisor of Banking to speed up the work at Spokane and take up the examination of the Central Bank immediately; that before he left Spokane he had learned from Mr. Barghoorn of the existence of a large outstanding draft, which later proved to be the draft for \$51,000 drawn by the Central Bank on the Spokane & Eastern in favor of the Seattle National Bank; that he either heard of this from Mr. Barghoorn or from the officers of the Spokane & Eastern, and that there was doubt expressed as to whether it would be honored, and from the results of his conversation with Mr. Barghoorn he was given the impression

(Testimony of Fred Stevens.)

that it was not to be honored; that on the night of 25th January he went from Spokane to Yakima, getting into Yakima late at night. Mr. Barghoorn was on the same train. The following morning, with other examiners, he went to the Central Bank; that knowing the condition of the bank being called on to meet a large withdrawal, he disregarded the usual procedure in counting the cash to look at the balance sheet, and at a glance saw that heroic measures were necessary to [43] establish whether the bank would be able to provide funds for meeting the draft; that he was also informed that the Central Bank had appealed to the local clearing-house of Yakima for aid, and his efforts were directed toward bringing that about as quickly as possible, either by the local banks purchasing rediscount notes, or else taking over its deposit liabilities. This was on the 26th and he told of the efforts he made during the morning of that day to enlist the assistance of the local banks of Yakima to tide over the situation. The witness then testified as follows: "That the meeting then adjourned until evening, at which time a number of credit men from the members of the Yakima Clearing-house Association was augmented and a more exhaustive analysis made of the paper, and as the figures for losses were developed, that is, in the judgment of these credit men, they seemed to be in a constantly ascending volume, and it looked that at one time after wiping out the capital and surplus and undivided profits of the Central Bank & Trust Com-

(Testimony of Fred Stevens.)

pany through losses, there would be a deficit loss, at one time we figured, of \$75,000.00 or some such matter. . . . ” The local clearing-house banks undertook to donate first \$25,000, and then went to \$50,000. The witness did not consider that sufficient and undertook to secure gratuities from other sources. He called up the Spokane & Eastern Trust Company and it offered to donate \$15,000. He also got in communication with the Seattle National Bank of Seattle, and while he was assured something would be done, no definite amount was named. Then the Yakima banks intimated that they would put up \$80,000 if other contributions could be had from other sources. The witness again called up the Spokane & Eastern and was told that it would raise its amount to \$20,000. The matter rested there, with some of the members of the local clearing-house willing to shoulder their part and others unwilling to do so, and the meeting “kind of petered out” along in the small hours of the morning of the 27th. Along about 11:00 o’clock the examiners concluded they could not get any definite action taken, and closed the bank. The witness testified that he and the other examiners put in the whole day of the 26th trying to effect something to save the bank, and did not close it until the morning of the 27th when it appeared as though nothing could be done. He testified, also, that when he took charge of the Central Bank and proceeded to make an inventory of. [44] its assets, certain notes could not be found, and Mr.

(Testimony of Fred Stevens.)

Buckholtz informed him that he, Buckholtz, had them, and that he had taken them out on the evening of the 26th. Buckholtz told the witness that these notes were items belonging to the Spokane & Eastern Trust Company; that they were items it had purchased from the Central Bank, bills payable, rediscounts, and collateral in connection therewith. The witness demanded the surrender of the property which Mr. Buckholtz refused to surrender, saying that the notes were under his personal control, that he had rented one of the bank's safety deposit boxes into which he had put the matters belonging to the Spokane & Eastern and that the Central Bank and the examiner had no interest therein. He let witness inspect the package, and witness made a record of the matter and sent it to Olympia. During this transaction witness was informed by Mr. Buckholtz that he had communicated by long distance telephone with Spokane. Witness subsequently discovered that with the exception of one or two that were a mistake, the items which Mr. Buckholtz had in his possession belonged to the Spokane & Eastern Trust Company. Mr. Buckholtz made an affidavit in connection with this matter, setting forth certain collateral and notes held by him and stating that it included all which was held by him which had been obtained from the Central Bank & Trust Company. It was conceded that he took such notes and collateral at the request of the Spokane & Eastern Trust Company as belonging to them. The witness testified

(Testimony of Fred Stevens.)

that when he went to the Central Bank on the morning of 26th January, he found Mr. Ellis, Mr. Buckholtz and Mr. Lemon in the banking-room; they were all in the same room. The capital stock was \$50,000.00. [45]

On cross-examination the witness testified that the period of deflation throughout Eastern Washington, Northern Idaho and Western Montana started in the fall of 1920, becoming noticeable particularly in the last month or two of that year and was at the peak about the time of the failure of the Central Bank; that he would not want to say that during that period of deflation the country banks through the district mentioned were all in difficulty, or a great majority of them were, but that he would say that the pressure for cash became acute and each bank in the community became interlocked with each other for exchange and cash and deposits began to drop; that collections were increasingly difficult because buyers were loath to part with cash and protect their own credit and in a good many cases quotations for actual commodities were in a sense fictitious; that the country banks, through the territory referred to, were dependent in the first instance upon the Federal Reserve System, if they were members of it, and that if they didn't belong to that system they were largely dependent upon the larger city banks unless their affairs were in such shape that they had liquid securities, but that banks that were stressed at all were largely dependent upon the

(Testimony of Fred Stevens.)

larger city banks; that during this period of time the Spokane & Eastern Trust Company was extending liberal assistance to large numbers of the [46] banks throughout the sections referred to; that the exact extent of its assistance to different banks he could not remember, but that, as he recalled, a very considerable part of the loans of the Spokane & Eastern Trust Company were directly to banks, rediscounts or accommodation paper made for the benefit of other banks. The amount of \$3,000,000 to \$5,000,000, being suggested to the witness as the amount of such loans, he answered that he would say, roughly, that the amount was 33% of the total loans of the Spokane & Eastern; that during that period the average deposits of the Spokane & Eastern were better than \$10,000,000, and that in his judgment its affairs during that period were in good shape from a banking standpoint; that it was generally in good shape and a very well-managed bank; that its accommodations to banks extended all over Eastern Washington, what is commonly known as the Inland Empire; that it included Northern Idaho and into Montana and down in Oregon; that its operations in the matter of assistance to other banks were made with the approval of the State Banking Department, and that such assistance was under some circumstances rendered at the solicitation of the State Banking Department; that he had known for a year or more that the Spokane & Eastern was extending assistance and credit to

(Testimony of Fred Stevens.)

the Central Bank & Trust Company; that it took the ordinary form of rediscounts and of direct loans and at times of overdrafts. The witness further testified that Mr. Ellis, the cashier of the Central Bank, had been known to the Banking Department of the state for some years; that he had been criticized as a banker and that in 1921 it was difficult to say whether or not he had mended his ways; that it was difficult to tax guilt in a sense because he had been attached to the Central Bank only a comparatively short time, but that when particular matters came up for criticism or information as to their values he was ignorant in a great many cases of the facts concerning a loan, and that the impression the witness got from the examination [47] was that he was an extreme optimist; that he felt very much dissatisfied with the examination and his letters to the Department expressed the apprehension that Ellis was not the man for the situation; that what was needed was contraction rather than going out and getting business with the inducement of making a loan, the latter being the policy pursued in the Central Bank; that the witness did not mean to reflect upon Ellis' honesty, but upon his competency; that as a result of the witness' examination of the bank, the Deputy Supervisor of Banking wrote a letter to Mr. Barghoorn taking Ellis to task for his past shirking and the fallacy of his policy; that while witness had read the letter he had forgotten whether it was a specific demand for Ellis' removal,

(Testimony of Fred Stevens.)

but at least it was to the point that something of that nature would have to be done. Later on, a specific demand was made. In December the witness was in Yakima in connection with an examination of another bank there, and talked with Mr. Barghoorn, stressing to Barghoorn the absolute necessity for making a change, pointing out that there were many irregularities and details generally in deplorable shape; Mr. Barghoorn said he desired to clean house gradually; that while he realized that Ellis was not pleasing to the Banking Department of the state that he (Barghoorn) entertained sympathy for his wife and children and was loath to make a change on that account, but that he was becoming converted to the idea that a change was necessary and said that as soon as he could get a suitable man he would make a change. He informed the witness that in talking to various bankers he had been trying to get a man that would measure up to the required standard. The witness testified that when he arrived in Yakima on the 26th he went into the bank from the standpoint of conducting an ordinary examination; that while he realized the situation was grave that he did not deem himself in possession of sufficient facts on which to take over the institution, but that the facts which came out during the night of the 26th and the morning of the 27th justified him in doing so; that his investigation of the 26th and 27th led him to believe that with the amount of assistance which had been suggested the trouble

(Testimony of Fred Stevens.)

could have been tided over and the bank survive, and that he believed that subsequent developments had justified his position; that [48] his judgment from the conversation he had with Mr. Barghoorn was that Mr. Barghoorn had no idea but that the bank would be all right until coming over here on the 26th; that he believed Barghoorn had no suspicion whatever that the bank was going to have to close; that while he was cognizant of the danger of a cash shortage, he didn't question the worth of his assets.

On redirect examination the witness testified that the last examination of the Central Bank made by the State Banking Department prior to its closing was in the latter days of June, 1920, and that following the examination recommendations were made to Mr. Barghoorn to remove Mr. Ellis. The reason for the recommendation was that the condition of the Central Bank was too severe a job for Ellis' capacity, and also that the Banking Department had records of his activities in other banks. When the examination in June was made, the Central Bank was found from the accountant's end to be in deplorable shape; there were very little of the matters in balance. Their profit and loss account showed cash over one day and cash short the next, a certificate of deposit entered as one amount and showing up for a larger amount, and a general slovenly condition in matters of detail; that some of the specific acts which, in the opinion of the witness, showed that Ellis was not

(Testimony of Fred Stevens.)

a competent man to have charge of the bank was that prices were then at the peak and the witness formed the conclusion that Ellis judged the worth of his loans by capitalizing such prices and was expecting liquidation of his paper on those prices; that he was an optimist and overestimated the resources of the bank, and was prone to extend credit rather than to contract; that in December, 1920, he explained the difficulty with Ellis, as he saw it, to Mr. Barghoorn; that the reason he did so was Ellis functioned as a credit officer; that he felt the times needed a man of far sterner stuff; that he was informed that the supervisor of banking had written a letter to Mr. Barghoorn making an out and out request for a change in the management. At the request of plaintiff's counsel, Mr. Barghoorn produced the letter in question which bore date of 16th December, 1920. The witness further testified that no examination of the Central Bank was made after the examination in June, 1920; that it was the going out from under of [49] values which induced the Banking Department to make its request for a change more insistent; that Mr. Barghoorn was only occasionally in the bank and the man directly on the job was Ellis; that Barghoorn was a member of the Board of Directors of the Spokane & Eastern Trust Company; that from witness' conversation with Barghoorn on the evening of the 25th his attitude was more that of fearing a collapse of the credit of the bank and an apprehension over

(Testimony of Fred Stevens.)

being able to provide cash for the situation, rather than a fear of the intrinsic worth of his assets; that after the witness came to Yakima on the 26th he became convinced that with a certain amount of outside assistance, the bank could ride out its difficulties; that as to how much outside assistance was necessary, he relied upon the judgment of the credit men of the associated Yakima banks, and the more they looked at the paper the higher became their estimate, and the estimate arrived at was that it would take more than \$100,000 to restore the solvent condition of their assets, while the capital stock of the bank was only \$50,000. Mr. Rutter is a member of the state Guaranty Fund Board; he was on the Board in 1920 and has been continuously since.

There was put in evidence the telephone bill for long distance telephone calls rendered to the Spokane & Eastern Trust Company from 20th December, 1920, to 27th January, 1921; the bill showed 128 calls during that period. Among these was one call from Triplett to Buckholtz at Yakima on 6th January; one from Buckholtz at Yakima to Hubbard of the Spokane & Eastern Trust Company on 14th January; one from Hubbard to Buckholtz at Yakima on 15th January; one from Triplett to the Trust Company at Yakima on 19th January; and one from Triplett to Buckholtz at Yakima on 27th January. [50]

Testimony of Fred S. Ross, for Plaintiff.

FRED S. ROSS testified that *in* lived in Yakima and was nominal vice-president of the Central Bank; that his business is real estate, insurance and loans, which takes him over five counties, and that Mr. Barghoorn named him as vice-president, for which he received the honor but no recompense and no work; that he was a member of the Board of Directors of the Central Bank; that he was not sure of the other members of the Board of Directors when the bank closed, but that he knew Mr. Ellis, Mr. Barghoorn, Mr. Combe and Mr. Woodcock were; that he knew there were meetings of the representatives of the various banks in Yakima on the 26th and 27th of January; that on the morning of the 26th the meeting of the Clearing-house Association was called; that about 9:00 o'clock on the evening of the 25th he called up Mr. Steinweg and asked him to come down to the bank because he wanted to introduce Mr. Buckholtz to him and talk the thing over; that Mr. Buckholtz had been in Yakima then for three weeks; that when he called Mr. Steinweg he didn't go into details of what was to be discussed; simply told Steinweg that he had also told Mr. Heath, Mr. Fechter and Mr. Jones, and that they wished to have a meeting called of the bankers in town to meet with Mr. Barghoorn to discuss certain matters in regard to the Central Bank. The witness said he was asked to take this action by Mr. Rutter, who called him up and said that Barghoorn was

(Testimony of Fred S. Ross.)

with him and had asked Rutter to get Ross to get hold of Buckholtz and put him in touch with the gentlemen in Yakima so there might be a meeting on the next morning and discuss matters relative to the bank; he didn't say what matters relative to the bank. The witness said he was not cognizant of the daily grind and Mr. Rutter would not discuss such matters over the telephone. The witness said that he received this message just before dinner and called Steinweg not long after. Mr. Rutter said that he had heard pernicious stories had been started in Yakima about the bank by men who should know better and that the Yakima banks should put up an organized front to protect a sister institution. He didn't say anything more except to tell witness to get into communication with Buckholtz. He didn't tell witness there was a large draft outstanding against the Spokane & Eastern which [51] it was not going to honor. He didn't tell witness that Buckholtz knew all the details and could inform witness what the trouble was. He said that Buckholtz had the run of the business and could talk to the gentlemen better than witness could. Witness got Buckholtz probably earlier than 9:00 o'clock and took him down to Mr. Steinweg. Witness told Mr. Steinweg in a general way that it was necessary to have these local men get together and discuss the matter with Mr. Barghoorn the next morning. Mr. Rutter said in his telephone conversation that Barghoorn would be in Yakima the next

(Testimony of Fred S. Ross.)

morning. Witness telephoned Steinweg at 9:00 o'clock to come down town to see Barghoorn and have the Yakima banks get together the next morning to consult about the affairs of the Central Bank because Mr. Rutter told witness he had heard rumors; that was the general gist of the conversation. Mr. Rutter said something had to be done by the local men to keep the bank from having some trouble; that is all he told witness; he would not talk about stuff of that sort over the telephone. Witness testified that he is in the life insurance business, agent for the Western Union Life. Mr. Rutter is president of that company.

Testimony of Claude B. Hay, for Plaintiff.

CLAUDE B. HAY testified that he was formerly bank examiner of the State of Washington, ceasing to be such in March, 1921, and was such examiner during the month of January, 1921; that as such examiner he was *ex officio* a member of the State Guaranty Board, the other members of that Board being Governor Hart. Mr. Rutter, Mr. Stacy and Mr. John P. Duke, who is the present supervisor of banking; that there was a meeting of the full board in the Governor's office at Olympia on 22d January, 1921. The witness then testified: "Two or three days before the meeting of the State Guaranty Board, I had occasion to go to the Governor's office in regard to some business, and I had received a letter from a representative of Bradstreet. In talking with the Governor, he

(Testimony of Claude B. Hay.)

happened to see the letter from Bradstreets in my hand and asked me what it was. The letter asked whether [52] it was true that the Central Bank of Yakima had suspended payment. The Governor got very much excited and told me I could not ignore a letter of that sort and to send a man over at once, and I told him I had [53] assigned the examination of that bank to one of my examiners and he would be there in a few days.

At the meeting of the Guaranty Fund Board later something came up which caused the Governor to ask me whether I had sent an examiner to the Central Bank in Yakima, and I had told him I had not, and he said, "Why haven't you; I told you to." The Governor was very much excited and told me to send a man over there and close that bank at once, and if I would not do it he would find a bank examiner who would. Mr. Rutter told the Governor, I can't recall his exact words, but it is to the effect that the Governor ought not to act hastily in a matter of that kind; and possibly he said I was handling it all right, although I don't know whether he said that, but he said "We have a man over there who is looking after things and things are coming along very nicely," or something to that effect.

Testimony of J. H. Miner, for Plaintiff.

J. H. MINER testified that he was in Yakima on 27th January last, the date on which the Central Bank was closed; that he met Mr. Buchholtz at

(Testimony of J. H. Miner.)

that time and had a conversation with him in reference to the remittance letter sent by the Seattle National Bank to the Central Bank, enclosing, among other items for collection, the check of the United States Steel Products Company for some \$47,000.

The witness testified further: I saw Mr. Buckholtz in the lobby of the hotel about 8:45 in the morning, accompanied by Mr. Stevens, Mr. McBride, Mr. Hupp and Mr. Nossaman. The group of us walked down the street to the office of the Yakima National Bank. I had never seen Mr. Buckholtz before and I had difficulty in getting his name, and I finally asked him how to spell it, and he gave me his card. The card was introduced in evidence. It reads: "W. F. Buckholtz, Spokane, Washington. Credit Department, Spokane & Eastern Trust Company." I immediately identified him as being a representative of the Spokane & Eastern Trust Company, and following the breaking up of the conference, Mr. Buckholtz and I and several others went down to the office of the Central Bank, and on the way I questioned him concerning the transaction. I was particularly interested in this remittance letter and the draft in connection with the Spokane & Eastern's refusal of it. After we arrived at the bank we looked up the remittance [54] letter and discussed the point as to whether the remittances were made promptly, and the records show there had been no delay on the part of the Central Bank in effecting collection and making remittance.

(Testimony of J. H. Miner.)

Mr. Buckholtz told me that he had been in touch with the handling of this item himself; that he knew this was the Yakima Hardware Company's check, the large item, and he knew the draft had been issued in favor of the Seattle National Bank in payment of the cash collection letter, and that he knew funds had been sent to cover this outstanding draft. In fact, I questioned him. I was very much interested in the details because of our interest in the matter. He informed me this was exchange he had received from the Yakima Valley Bank, which was enclosed in their remittance letter to Spokane. I walked back to the Commercial Hotel and during the course of the conversation it appeared we were doing a somewhat similar work. I was outside man for the Seattle National Bank and he led me to believe that he was the outside man for the Spokane & Eastern. I asked him if he was in touch with the Spokane & Eastern by long distance 'phone and he admitted that he had talked with them on numerous occasions; that it was his custom to talk frequently with them concerning the transactions that were involved between the two banks. I asked him whether he had discussed this matter of this cash remittance letter and this draft and he said that he had discussed that matter with them over the long distance 'phone. I asked him particularly if he didn't know that these items were collection items and that the Central Bank at no time had title to these items, and he admitted he was so informed. I remember asking him whether they

(Testimony of J. H. Miner.)

didn't know that this draft was outstanding previous to the date it was actually presented, and he told me that they did know the draft was outstanding. I saw Mr. Buckholtz off and on through that entire day, saw him in the evening, and it was quite natural that this topic of conversation should come up, and the opportunity was given me to further confirm the information I received earlier in the day by a series of questions from perhaps a little different angle, so that there was no doubt in my mind as to what information he had and the information he had imparted to me. I came over here to find out what I could about [55] that remittance and what had happened; that was the occasion of my trip. I brought the point out by a question to Buckholtz if he had informed the Spokane & Eastern Trust Company that the remittance that was made to it on the 21st by the Central Bank were the proceeds of those same collection items. He said he had communicated that information to them by long distance telephone. I discussed that with Mr. Buckholtz, the condition of the Central Bank, and his statement to me was that he didn't think it would pay more than 30%. I had a conversation with Mr. Barghoorn on that day. Mr. Barghoorn was very much upset and talked very freely to me. He outlined that he had bought the bank in conference with Mr. Rutter of the Spokane & Eastern in whom he had at that time the utmost confidence, and when they encountered these difficulties in the fall arrangements were made with the Spokane & Eastern to supply them with funds

(Testimony of J. H. Miner.)

through rediscounts and direct loans, and that through Mr. Rutter he had secured Buckholtz to come down there to look after the interests of the Spokane & Eastern in connection with their rediscounts. He outlined to me the gist of the conference he had with Mr. Rutter ten days previous to the 25th in which he had signed over personal assets which he estimated to be worth \$75,000 to further secure the Spokane & Eastern in connection with rediscounts and bills payable, and he seemed to be quite concerned on this date, the night of the 27th, at this early date, ten days previous to the crisis, that it was all up to the Spokane & Eastern to see him through this immediate difficulty, and he said he was very much surprised ten days later to be notified he would have to raise at least \$35,000 to protect outstanding drafts which had been issued in Seattle, and that as he had no other resources in Spokane, having pledged over the cream of his assets ten days previously, he immediately made arrangements to come to Yakima and see what could be done; then he showed me a copy of the telegram which he had sent from Pasco to Mr. Witherspoon asking Mr. Witherspoon to notify the Seattle National Bank, and he wanted me to feel that he had played fair in letting us know just as soon as he knew there was a crisis impending. [56]

On cross-examination the witness testified that he was in continuous contact with Mr. Buckholtz for several hours on the 27th; that during those hours

(Testimony of J. H. Miner.)

he ceased not to cross-examine him; that the result of that examination was that Buckholtz said that he knew when the cash letter came in and he knew when the draft in payment of it was sent out. Testifying further the witness said: He didn't tell me that he immediately called up the Spokane & Eastern by long distance; he told me he called them up on the date the cash letter was there. He didn't tell me that on the same day that the cash letter was there he called up the Spokane & Eastern and told them about it. There was no specific telephone call mentioned when he made reference to this cash letter. He simply said they were informed of the matter. He told me they were informed by means of long distance telephone call about the draft, but the date wasn't specified. I inferred from the conversation that it was on the date the cash letter came over. As to the draft that was drawn against the Spokane & Eastern, I inferred that he called them up to tell them on the date the draft was issued, but I am not saying for a moment that he specifically admitted he called them up about the draft. I don't think the point was definitely fixed that he called them up on the same date the draft was issued. I never did find out when he called them up to tell them about the draft, only that he had informed them by long distance about it. We didn't discuss correspondence at all. I didn't ask him about letters but I did ask him about long distance. I said he informed them about this transaction; they might have called him up. He said he

(Testimony of J. H. Miner.)

talked with Mr. Triplett about this draft by long distance. I didn't ask him what Mr. Triplett said. I had no curiosity on the subject of what Mr. Triplett said or how he took it; I merely wanted to know whether he had informed them. The scope of my employment was to get the information I thought was of value and he never told me what they said. I went back to the question indirectly by a series of different questions, and he said that he was fully informed and he [57] had informed them. Probably this wasn't all covered in one conversation. We were walking along the street and other fellows with us, and the crowd would separate us, but as soon as I got a chance I would commence to cross-examine him again, and every time I questioned him it came back to the result that he knew all about it and had informed them about it over long distance; probably I didn't repeat that conversation more than three or four times. Mr. Nossaman overheard some of it. He is a lawyer from Seattle who was accompanying me. He is now in Yakima. I didn't ask Buckholtz whether he had written the Spokane & Eastern about it; I had the information I desired in the admission it was over the long distance telephone; I didn't care to go into it any further; I didn't want to arouse his suspicions unduly by digging into it any more than was necessary.

**Testimony of William L. Steinweg, for Plaintiff
(Recalled).**

WILLIAM L. STEINWEG testified that he was president of the First National Bank of Yakima and remembered the occasion of the representatives of the various Yakima banks meeting to consider the affairs of the Central Bank the day before it closed; that on the night of 25th January, Fred S. Ross called him up at his house and asked him to come down to the bank as he had an important business matter he wanted to talk over; that about 9:00 o'clock he met Mr. Ross, who was alone to the best of his recollection; that Mr. Ross stated that he had just received a message from Mr. Rutter of the Spokane & Eastern saying that unless the clearing-house banks of Yakima came to the rescue of the Central Bank before 10:00 o'clock the next morning, the bank would be closed by the examiners, who were on their way from Spokane for that purpose. The presidents of the different banks were called together the next morning to consider the situation. The first meeting was held in the directors' room of the Yakima National Bank. A later meeting of the clearing-house was held that night. Mr. Loudon, our cashier, and myself were present, representatives of our bank at that meeting. [58]

**Testimony of James A. Loudon, for Plaintiff (Re-
called).**

JAMES A. LOUDON testified that he was cashier of the First National Bank of Yakima and

(Testimony of James A. Louden.)

remembered the meeting of the representatives of the various Yakima banks immediately prior to the closing of the Central Bank; that he attended the night session on the 26th; that he was not present at the one called at 9:00 o'clock on the 27th. The night session began about 8:00 o'clock in the evening and continued until about 4:00 o'clock the next morning; that representatives from all the Yakima banks were present, together with the state examiners. Mr. Barghoorn, Mr. Buckholtz and Mr. Ellis. The time was principally taken up with discussing the securities of the Central Bank. There had been previous meetings when the notes had been examined by representatives of the banks. This examination was with the idea of arriving, if possible, at the amount necessary to help the bank out. There was no definite conclusion arrived at from the examination of the securities, but each of us had made a list as the securities were called, and we ourselves had made up our minds that nothing could be done within reason to help out the bank. The representatives from our bank were of the opinion that \$100,000 would not aid the bank any.

On cross-examination the witness testified as follows: that in the discussion between the members of the local banks there was never any amount mentioned that we would put up, but the examiners asked if they could get help from outside towns such as Spokane and Seattle, whether we would do our share, and we were trying to arrive at what that

(Testimony of James A. Loudon.)

share would be. It was \$100,000 that they were trying to raise; whether that was the total or the local contribution witness couldn't say; in witness' opinion \$100,000 would not save the bank; witness did not express that opinion and didn't think the other banks did; that was simply the opinion of our bank. During the evening the amount was discussed as high as \$125,000, but we did not reach anything definite that night. The only report witness had from the bank examiners was that the Spokane & Eastern would contribute \$15,000. At the meeting [59] of the bankers no conclusion was ever reached as to the amount we would put up.

Testimony of William N. Irish, for Plaintiff.

WILLIAM N. IRISH testified that he was vice-president of the Yakima Trust Company and attended some of the meetings respecting the Central Bank business on the 26th; that he took part in examining the securities and assets; that no definite opinion was expressed as to any action that should be taken; that his own opinion was that there was such a large amount of poor paper that he could not see where the banks could get back of it to save it. Witness also testified: As I recall it the banks would have to contribute somewhere between \$50,000 and \$100,000. Different opinions were expressed as to the amount that would be needed. We found what we considered to be \$100,000 worth of paper that was of no particular value and other amounts, I don't remember the amount of it, that was of

(Testimony of William N. Irish.)

doubtful value. As far as I could learn, it seemed to be the concensus of opinion of all present that there was at least \$100,000 of the paper that was of no value.

Testimony of James A. Louden, for Plaintiff.

JAMES A. LOUDEN testified that he met Mr. Buckholtz shortly before the failure of the Central Bank; that Buckholtz introduced himself as a representative of the Spokane & Eastern Trust Company.

On cross-examination the witness testified that Buckholtz introduced himself as a representative of the Spokane & Eastern by a card; said he was Mr. Buckholtz of the Spokane & Eastern Trust Company. He told witness he was looking after some of the affairs of the Spokane & Eastern; that he had just finished a job in the northern part of the state similar to this and was looking after the affairs of the Spokane & Eastern in connection with the Central Bank; that was in the way of introduction. He said he was going to be here some little time. The reason it possibly impressed witness was it was an indication of the fact that there was something wrong across the track, by which witness meant with the Central Bank. What he said was just by way of introduction, that he was looking after the affairs of the Spokane & Eastern. There was no business up between witness and him that required him to state with accuracy anything

(Testimony of George M. Lemon.)

about his position; it was just by way of introduction. [60]

**Testimony of George M. Lemon, for Plaintiff
(Recalled).**

GEORGE M. LEMON produced the daily statements of the Central Bank and its draft register showing transactions such as the cash letter that is involved here. He testified that the only entry that was made of a remittance draft was the actual notation of the draft being drawn in payment of a letter; it was held as a cash transaction, and that he had the book containing those transactions and also the daily statements of the bank through the month of January and for some time preceding. He testified that just before he drew the draft in payment of the cash letter of the Seattle National Bank that came in about the 20th or 21st of January, Mr. Buchholtz and he were talking about the letter and he was showing Buchholtz the draft drawn against the Spokane & Eastern Trust Company account. Witness thought the large item of \$47,000 came up in their conversation. He wanted to know what made such a large draft and witness told him about this large draft drawn on the Yakima Trust Company by the Yakima Hardware Co. in the amount of \$47,000.00.

On cross-examination the witness testified that this was after the collection had been made and the credit taken at the Valley Bank, but that the re-

(Testimony of George M. Lemon.)

mittance had not yet been made to the Spokane & Eastern.

On redirect examination he testified that the remittance was mailed out and the draft drawn on the same day, and the conversation took place just before he wrote up the draft in payment of the letter. The witness testified also that so far as he knew, while Mr. Buchholtz was at the bank he had to do with the renewing of notes, securing of collateral, financial statements, and had to do with the note pouch in general; that as far as he knew, Buchholtz handled the rediscounts from approximately the 5th of January on; that the notes were rediscounted with the Spokane & Eastern. He didn't know whether any notes were rediscounted elsewhere; that he would have to refer to the books to see whether there were rediscounts elsewhere; that the Central Bank had some other rediscounts at that time; that it had rediscounts with the National City Bank of Seattle; that he had seen [61] Mr. Buchholtz looking at the daily statements, but whether he did every day he could not say; that there were cash remittances made to the Spokane & Eastern during the month of January, but no letters of this size; this was the largest. [62]

In connection with the charge-backs of the 25th of January, the witness explained that those tags were made up in this manner: Our custom was to wait until the next morning to enter them on our general ledger in order to get all the items for that day in that day's business. We used to post

(Testimony of George M. Lemon.)

the ledger along about 9:00 o'clock in the morning as a convenient time, and sometimes before 9:00 o'clock Buckholtz called me up and told me there were some additional items on his desk which to be sure to get through on the ledger on the day of the 25th. This was on the morning of the 26th that he called me. The items he furnished me were made out in his own writing. Some of the credits were still in Spokane or in transit. In cases of fruit drafts it was the practice when a charge-back like that was made when paper was out of the bank, to receive advice either by wire or letter in order to furnish the basis of an entry. In case of rediscounts, I believe the general practice was to send the rediscount paper down a few days before it was due so that a renewal could be made or the bank could arrange to take care of it. Some of the items referred to on the 25th consisted of fruit drafts that were out of our possession. I don't know where Mr. Buchholtz got his instructions to make up these tags.

On cross-examination, the witness said that he didn't know what Mr. Buckholtz' conversation or instructions were; that Mr. Buckholtz called his attention to the rediscounts and drafts charged back by telephone.

On redirect examination the witness testified that the deposits of the Central Bank in November, 1920, amounted to \$665,753; on 3d January to \$513,080; that the decrease in deposits from the 3d

(Testimony of George M. Lemon.)

to 4th was \$16,000; between the 4th and 5th, \$15,000; between the 5th and 6th, \$7100; between the 6th and 7th, \$7000; while from the 8th to the 9th they increased \$9,000; on the 11th, they decreased, \$3800; on the 12th the deposits had decreased \$3300; on the 13th, decreased \$16,100; 14th, \$7900; 15th, \$5500; while on the 17th the deposit increased \$12,900. This increase was due to a rise in individual deposits in checking accounts. The 18th, the deposit decreased \$9600; 19th, \$2300; 20th, \$5400; 21st, \$6000; 22d, \$11,500; 24th, \$1700; 25th, \$8300; that on [63] January 3d the deposits were \$513,080; on January 21st, the deposits were \$430,094; and on the 25th the deposits were \$426,151. There was introduced in evidence a table showing the increase and decrease of loans beginning with January 3, 1921. The tables showed a decrease in loans on January 3d of \$1472.13; on the 4th, of \$2071.90; on the 5th of \$1470; on the 6th of \$365.06; on the 7th of \$12,940.67; on the 8th of \$12,107.75; on the 10th an increase of \$5,190; on the 11th of \$21,950; on the 12th of \$10,375; on the 13th of \$358.69; on the 14th a decrease of \$4010; on the 15th of \$38.34; on the 7th a decrease of \$5236.50; on the 18th a decrease of \$2005; on the 19th of \$591.69; on the 20th of \$1,661.39; on the 21st of \$412.10; on the 22d of \$470; on the 24th of \$1134.40; on the 25th, \$21,868.47; on the 26th of \$1013.16. The witness explained that the item of January 8th, \$12,000, was really a switch in the loans and discounts; that there was an item of \$11,-

(Testimony of George M. Lemon.)

000, Frank Investment Company note, that was presumably sold a day or two before to the Spokane & Eastern; that this item was not collected and was returned to the Central Bank and shows on the 12th as loans increased; on the 25th, a statement of a collection of \$21,000 is explained by a \$20,000 note of Mr. Barghoorns that was paid by the sale of Liberty Bonds which had been given as collateral security for it. There was introduced in evidence a table showing the rediscounts of the Central Bank with the Spokane & Eastern beginning on January 3, 1921. On January 3d, the item (in round figures) was \$114,000; on the 4th, \$119,000; on the 5th, \$119,000; on the 6th, \$116,000; on the 7th, \$116,000; on the 8th, \$163,000; on the 10th \$163,000; on the 11th, \$184,000; on the 12th, \$186,000; on the 13th, \$186,000; on the 14th, \$183,000; on the 15th, \$181,000; on the 17th, \$183,000; on the 18th, \$182,000; on the 19th, \$182,000; on the 20th, \$188,000; on the 21st, \$192,000; on the 22d \$192,000; on the 24th, \$192,000; on the 25th, \$142,000; on the 26th, \$147,000; on the 27th, \$147,000. The witness testified that beside the Spokane & Eastern the Central Bank had rediscounts with the National Bank of Seattle; that there was no appreciable change in those rediscounts during the month of January, 1921, a net change of about \$600 being all; that the compilation of rediscounts does not include notes that were pledged as collateral with the Spokane & Eastern. The witness further testified that on January 3d [64] the cash re-

(Testimony of George M. Lemon.)

serve of the Central Bank was 10%; on the 4th, 9%; on the 5th, 6%; on the 6th, 4%; on the 7th, 3%; and that the next day it jumped up and went as high as 19% by the 11th; on the 8th, it was 15%; on the 10th, 16%; on the 11th, 19%; on the 12th, 17%; on the 13th, 14%; on the 14th, 13%; on the 15th, 11%; on the 17th, 13%; on the 18th, 11%; on the 19th, 11%; on the 20th, 12%; on the 21st, 11%; on the 22d, 11%; on the 24th, 11%; on the 25th, 4%; on the 26th, 3%; on on the 27th, 8%. The witness testified that the Sundry Banks account consisted of items sent to various banks or individuals for collection, a great part of it consisting of fruit drafts that had not been collected or honored; they proved to be not such cash items as could be drawn against for cash; they were fruit drafts sent to banks for collection which it was supposed would be paid. This item on the 3d amounted to a third of the Central Bank's total cash. These items were included in the amount of reserve testified to; on the 3d the items would amount to about one-third of the total cash; about one-fourth on the next day; about two-thirds on the next day; and on the 6th they equalled a little more than the bank's total cash, the reason for that being that the overdraft of the Spokane & Eastern was deducted from the cash reserve. The witness then proceeded to state the proportion that these items bore to the total cash for the various days during the month of January, running from a 6th to a 3d thereof. The

(Testimony of George M. Lemon.)

witness' attention was called to a list, showing a balance, according to the books of the Central Bank, of the Spokane & Eastern account, showing the balances on any given date from 3d January to 27th January, red ink showing the amount of overdraft and the black showing the balance to the credit. A table showing such daily balances was introduced in evidence and showed as follows: 3d January, overdraft (speaking all through in round figures), \$22,000; 4th, \$28,000; 5th, \$38,000; 6th, \$51,000; 7th, \$54,000, 8th, \$3,000; 10th, \$700; 11th a balance in favor of the Central Bank of \$21,000; 12th, a balance in favor of Central Bank, \$8,000; 13th, a balance in favor of Central Bank, \$290; 14th, overdraft, \$13,000; 15th, overdraft, \$10,000; 17th, overdraft, \$12,000; 18th overdraft, \$14,000; 19th, overdraft, \$22,000; 20th, overdraft, \$17,000; 21st, overdraft, \$16,000; 22d, overdraft, \$13,000; 24th, overdraft, \$17,000; 25th, overdraft, \$56,000; 26th, overdraft, \$51,000; 27th, overdraft, \$51,000. The witness then testified that just before the [65] remittance was made to the Seattle National Bank before the draft was drawn, Buchholtz and he were talking over the items, and Buchholtz said, "We will send these drafts to Spokane; it will make our balance look well up there for a few days until this overdraft gets in." The two drafts he referred to were the drafts for \$48,000 purchased at the Yakima Valley Bank, and the overdraft was the \$51,000 draft sent to the Seattle National in payment of its letter. There was then

(Testimony of George M. Lemon.)

introduced in evidence daily bank statements from January 3d to the 27th. These bank statements are not inserted, as they are of no materiality save as going to the question of the insolvency of the Central Bank. The defendant Spokane & Eastern Trust Company makes no question but that the Central Bank was in fact insolvent during the month of January, 1921; that is, it could not have met its obligations without outside assistance. This concession for the defendant, however, is not the concession that the officers of the Central Bank or any of the officers of the Trust Company knew that it was insolvent at any time prior to that date its doors were closed.

The Court stated that it would take judicial knowledge of the fact that the time required for the transmission of mail between Seattle and Yakima was five or six hours, and between Yakima and Spokane little longer. [66]

On recross-examination the witness testified that the conversation with Buckholtz just referred to occurred about 5:00 o'clock on the afternoon of the 21st; that he then stated to Buckholtz that the Central Bank would have to draw a \$51,000 draft to cover the collections items from the Seattle National Bank; and Buckholtz said that we would send those big drafts up to Spokane & Eastern in our remittance; that it would boost our balance there for a few days while the draft we drew against them in favor of the Seattle National Bank was floating. He said to write the draft, to draw

(Testimony of George M. Lemon.)

it on Spokane, and our custom was for him to take the drafts and look them over and see that they were mailed. Along in January, the amount of our rediscounts with the National City Bank of Seattle was approximately \$31,000. It remained fairly steady. In addition to the rediscounts, we had bills payable with them for \$30,000; that remained fairly steady. Our active account both for rediscounts and bills payable and other drafts was with the Spokane & Eastern and not with the National City. Our books did not necessarily show from day to day the rediscounts that had been charged back to us. It might be the next day before we would receive their advice on the charge-backs so that our books would not balance on the same day with the Spokane & Eastern. The statement of balances shows an overdraft on the 25th of \$56,000, which goes down to \$51,000 on the next two days; that does not include the rejection of the draft drawn against the Spokane & Eastern in favor of the Seattle Bank. The balance was stated upon the theory that the draft had been paid.

Witness further testified: I didn't know until the 26th that it had been rejected; that was not carried into our account because the examiners were there and they didn't see fit to charge it off; that is the reason the overdraft appears as it does upon the statement. On the 27th, if the draft had been charged back to us, or carried into our books so as to show its rejection, it would practically balance the account. We have no statement of bills

(Testimony of George M. Lemon.)

payable to the Spokane & Eastern. We had bills payable there of \$20,000 from January 3d to the 27th; that account was steady, and the only fluctuation was in the rediscounts and overdrafts. On rediscounts, we from time to time substituted, that is to say, a note that had been rediscounted would be taken up by us and another put in its place. [67] These changes in balance take that into account and show the net after that had been done. Before this conversation with Buckholtz, I had not been directed to forward the Yakima Valley Bank drafts to the Spokane and Eastern for deposit and to draw in favor of the Seattle National on the Spokane & Eastern. I hadn't made up my mind whether I would do that. I had not talked with Mr. Ellis about it; I had intended to; I wasn't absolutely sure that was the course he would take; I didn't apply to Mr. Buckholtz for instructions and I was not intending to apply to him for instructions. I was going to take it up with Mr. Ellis. As I went to the register where we kept it, Mr. Buckholtz happened to meet me there. I was going over the items and that was the way it came up. Probably in a bulk of the instances we had been forwarding all our deposits to the Spokane & Eastern and drawing against them. If the ordinary course of business had been followed, these Yakima Valley Bank drafts would have been sent along with our other remittances for credit with the Spokane & Eastern, and the draft in favor of the Seattle National would have been

(Testimony of George M. Lemon.)

drawn against the Spokane & Eastern. The Yakima Valley Bank drafts were made payable to the Central Bank & Trust Company and endorsed by our general endorsement "pay to any bank or banker."

On redirect examination the witness testified that this remittance appeared to be the largest item sent to the Spokane & Eastern during that period; that the \$45,000 draft was not sent directly to Seattle because although the Central Bank had an account there it was not really an active drawing account; that it was not its custom to send drafts and deposits there and draw against them; that it would have been perfectly proper to send the \$45,000 proceeds direct to the Seattle National providing they had a balance large enough to take care of the difference between the deposit and the amount of the draft. The witness further testified that the amount charged back by the Spokane & Eastern on 25th January was around \$24,000; that the entries on the books dated the 25th were made between 8:00 and 9:00 o'clock on the morning of the 26th; that some of the tickets were Mr. Buckholtz', but some were regular items; that they were quite a sizable bunch of tickets Mr. Buckholtz made out; [68] that the amount of the \$51,000 draft was credited on the Spokane & Eastern account as having been drawn against them and so went into the amount of the overdraft shown on the 21st; that the Spokane & Eastern was credited with anything drawn against them at

(Testimony of George M. Lemon.)

the time we drew it and charged with the remittance; that in addition to the Barghoorn note, the Central Bank had bills payable with the Spokane & Eastern amounting to \$20,000, which was regular bank paper executed by officers of the bank and which was secured by bank loans and discounts as collateral; that the amount of this collateral was \$30,000, while the loan was \$20,000.

On recross-examination the witness testified that the paper shown him was a day by day list of the cash letters sent by the Central Bank & Trust Company to the Spokane & Eastern for credit during the months of October, November and December, 1920, and January, 1921; that it did not include any notes or rediscounts sent, but merely cash items, drafts, checks, etc.; that it showed merely cash items which were sent by the Central Bank to the Spokane & Eastern for credit during the period stated. The paper was introduced in evidence. This statement showed cash remittances; that is, checks, drafts and other regular cash items for every banking day of the month of October, running (speaking in round figures) in amounts from \$6,000 to \$34,000 for each day, and totaling for the month \$421,000. It showed for November similar remittances for practically every banking day running in amount for each day from \$3,000 to \$26,000, totaling for the month \$317,000. It showed for December cash remittances for every banking day of the month running in amount from \$1,000 to \$15,000, totaling \$156,000 for the

(Testimony of George M. Lemon.)

month. It showed for January remittances for every banking day from January 3d to the 26th, running in amount from \$700 to \$48,000, a total of \$151,000 for the month, or a grand total for the four months of over \$1,000,000. [69]

Testimony of J. H. Miner, for Plaintiff (Recalled).

J. H. MINER testified on direct examination that when the Seattle National Bank was advised that payment of the draft for \$51,000 had been refused it charged back to plaintiff the item of \$47,000, the check which had been given it for collection. On cross-examination he testified that the bank had also charged back to the other customers the other items contained in the letter, which was in accordance with the bank's usual custom and nothing special about it. [70]

Testimony of Edward Bray, for Plaintiff (Recalled).

EDWARD BRAY testified that plaintiff had never received any return in money or anything of value on account of the \$47,000 check.

Testimony of B. J. Ellis, for Plaintiff.

B. J. ELLIS testified that he was the cashier of the Central Bank & Trust Company and became such officer in February, 1920; that the only examination of the bank made after he became cashier was the one testified to by Mr. Stevens in June of 1920; that there was dissatisfaction with the wit-

(Testimony of B. J. Ellis.)

ness' conduct of the bank, but that it was physically impossible to be informed in the short period of time he had been connected with the bank as he should be and would like to be; that the paper had come to the bank prior to his time; that Buchholtz came to the bank on the morning of the 6th January; that the occasion for his coming was that on the beginning of the new year, on 3d January, there were abnormal conditions in the bank; very heavy withdrawals, and he communicated with Mr. Barghoorn and Barghoorn came down with Buchholtz on the night of the 5th of January. There had been something of a run on the bank during the first two or three days of January. Minutes of the meeting of the board of directors of the Central Bank & Trust Company held on 11th January were introduced to show that no action was taken at the meeting relative to employing Mr. Buchholtz and that none of record was afterwards taken. Continuing, the witness testified that Mr. Buchholtz was in the Central Bank; he was handling the rediscounts for the Spokane & Eastern, selecting such paper as was sent to them; that the Central Bank was sending up paper for rediscount to the Spokane & Eastern during that period; that owing to the heavy withdrawals it was necessary to have considerable financial support, and Mr. Buchholtz was handling that entirely. The Spokane & Eastern was, in popular parlance, carrying the Central Bank and did until the closing; that the Spokane & Eastern was the principal correspondent at all times

(Testimony of B. J. Ellis.)

and the bank was mainly leaning on the Spokane & Eastern for financial support; that when it became necessary for some paper to be rediscounted with the Spokane & Eastern, Mr. Buchholtz selected the paper; that he had unrestricted access to all the securities and he and the witness would go through them daily, selecting the best and the history sheets and classifying. The history sheet [71] is a financial opinion or estimate in the absence of a financial statement, or it would include additional information not included in the financial statement. Mr. Buckholtz during his time determined what paper would be sent up. The witness handled none of the rediscounts after he came in.

The witness testified further: As to the extent of Buckholtz' responsibilities, he and I together checked regularly, daily, all the financial transactions and consulted together pertaining to them. The man referred to as "Van" in the correspondence was Van Vleck, assistant cashier until 1st January, 1921. The testimony of Mr. Stevens respecting defects in records of profit and loss referred to the activity of the profit and loss account; that was prior to my time. There was some criticism of my management of the bank following the examination of June. The first time I had knowledge about the letter to Mr. Barghoorn was yesterday. Possibly due to misinformation or lack of understanding, the Spokane & Eastern, and possibly one of the members of the State Banking Department, had censured me and held me responsible for conditions

(Testimony of B. J. Ellis.)

which I did not create and had no control over. As I recall it, during the period I was in there the maximum loans of the bank were about \$650,000; that was the peak they reached during that period; the loans were about \$508,000 when I went in; they were \$552,000, about, when I quit. Among the increase of loans was one of \$11,000 to the Frank Investment Company and one of \$5,000 to Ross & Fisher, of which Mr. Ross, the vice-president, is a member, and \$12,000 to another director, Mr. Woodcock. The witness further testified that he remembered when the cash letter came in from the Seattle National Bank containing a check for \$47,000 in favor of the plaintiff; that the letter either arrived at the bank on the afternoon of the 20th or the morning of the 21st; that he talked with Mr. Buckholtz in regard to the cash letter; that it was discussed as usual. Buckholtz and the witness consulted concerning both incoming and outgoing cash items and clearings, and the particular letter was discussed in the usual manner and probably a little more at length, owing to its unusual size; that Buckholtz saw it and the items; that the drafts which were received through the clearings were sent to the Spokane & Eastern because it was the principal and drawing correspondent, and the only time the Central Bank didn't use them in the ordinary course of business was when the remittance was in the extreme east or in [72] California; that in the particular instance Buchholtz and the witness discussed the matter at some length and decided to

(Testimony of B. J. Ellis.)

send it to Spokane. The reason therefor the witness could not state specifically other than that they thought it was regular and drawing on them in settlement of the Seattle letter would avoid, as Buchholtz said, a transfer from some other account to the Seattle National, and would apparently swell the balance at Spokane for a few days.

On cross-examination the witness testified that Mr. Buchholtz didn't have charge of the whole of the credit department; that Mr. Buchholtz and he and the loan committee had charge of that; that Buchholtz had charge of it jointly with him; that in the time that witness had been with the bank prior to the examination made in the last part of June, 1920, he did not have time to entirely familiarize himself with the condition of the bank's paper; that that was necessarily so. He further testified that from the 1st of October and before that time, all items of any consequence, unless they went to the far east or to California, were deposited with the Spokane & Eastern; that the instructions were that the Spokane & Eastern was to have practically all of the business, and that all drafts in payment of whatever the bank had to pay were drawn upon them in that territory, except that Frisco was used for California business and that the National City Bank of Seattle was used for some of the western business; and that the National City Bank was quite actively used at times as they handled the Canadian stuff for the Central Bank; that during that period the custom was, in making

(Testimony of B. J. Ellis.)

remittances to the Seattle National, that about one-half of the settlements would be by drafts drawn on the National City Bank, or possibly not a half, and the other would be by drafts on the Spokane & Eastern; that he sent all the Yakima Valley drafts to Spokane for deposit, and drawing a draft in favor of the Seattle National against the Spokane & Eastern was not irregular, and that it was within the ordinary course of business as it had been transacted to draw it either there or on the National City Bank; that it would not have been sent to the Seattle National Bank in any case because the Seattle National was not a [73] drawing correspondent, a nominal balance only being carried there. While it might not have been out of the ordinary to have done it in this instance, it had never been done and in that sense would have been out of the ordinary.

On redirect examination the witness testified: That it was not a question of drawing on the Seattle National Bank. The Central Bank had the funds in transmittable form; that it was the purpose of the Central Bank that the Seattle National Bank should receive them, but instead of doing it directly, they did it indirectly by sending them to Spokane; that after Mr. Buchholtz came, witness carried on no correspondence with the Spokane & Eastern, but Buchholtz did it all; prior to Buchholtz' arrival witness had occasion to write the Spokane & Eastern almost daily in the regular course of business, but that he wrote no letters after Mr. Buchholtz came.

Testimony of W. L. Nossaman, for Plaintiff.

W. L. NOSSAMAN testified that he was in Yakima on the 27th January with Mr. Miner for the purpose of reporting on conditions to Mr. Spangler, president of the Seattle National Bank; that he asked Mr. Buchholtz for an estimate as to what the Central Bank would pay, and Buchholtz said he didn't think it would exceed thirty cents on the dollar. Witness also remarked something to Mr. Buchholtz that it seemed to him that the Spokane & Eastern would not have appropriated the money if it knew of the outstanding draft of \$51,000, and Buchholtz said they did know of it; he didn't tell witness how they had the information.

Testimony of Harry Coonse, for Plaintiff.

HARRY COONSE testified that he was in charge of the affairs of the Central Bank & Trust Company as liquidator, and in his opinion it would pay between thirty-five and forty cents on the dollar.
[74]

DEFENDANTS' EVIDENCE.

There was introduced in evidence a copy of the complaint in an action pending in the Superior Court of the State of Washington for Yakima County brought by the Seattle National Bank against the Spokane & Eastern Trust Company, Central Bank & Trust Company and John P. Duke, as supervisor of Banking. The action was one brought by plaintiff as trustee for various depositors to recover the balance of the items in-

(Testimony of W. T. Triplett.)

cluded in the remittance letter of 19th January, 1921, the complaint being similar in form and theory to the complaint in this action.

Testimony of W. T. Triplett, for Defendants.

W. T. TRIPLETT testified that he was a vice-president of the Spokane & Eastern Trust Company and a member of the board of directors and of the executive committee; that previous to 18th January, 1921, he had been secretary, and had a long experience in various positions in banking houses; that during the period under inquiry here he had charge of the relations with the country banks who kept accounts with the Spokane & Eastern, or had other kinds of dealings with it; that it had been the policy of the Spokane & Eastern Trust Company for a great many years to build up its country bank business by rendering assistance in furnishing employees to the country banks; that country banks often asked the city banks to recommend someone for a position in such banks and that the Spokane & Eastern at times recommended its own employees for such positions if they were good men, thinking that they would become, in time, officers of the bank and would retain a friendship for the Spokane & Eastern Trust which would build up business between the two banks. The witness then gave twenty-four cases where, upon the request of sundry country banks it had recommended men for employment during a considerable number of years, and stated that in practically every instance it had

(Testimony of W. T. Triplett.)

resulted in cementing the friendly relations between the banks. Five of the cases were recommendations of men then in the employ of the Spokane & Eastern Trust Company. That he has not mentioned a great many who were sent out and proved unsatisfactory. Speaking of the specific instance of the Central Bank and Mr. Buckholtz, the witness testified that Mr. Barghoorn had informed the witness that he was contemplating a change in the Yakima bank and asked witness if he knew [75] of anyone competent to take the place.

The witness continued: Barghoorn stated that he wanted a man who was peculiarly fitted to look after loans and manage a bank in a town the size of Yakima and who was capable of building up a business. Mr. Barghoorn was frequently in the bank, being a member of the board of directors of the Spokane & Eastern at that time, and would ask me if I had got him a man yet. I sent up several who had come in to us from outside banks where business was contracting, but he did not take any of them because we were not in a position to recommend them as he wished them to be recommended. Finally, I had a talk with Mr. Rutter and we decided that if Mr. Barghoorn wanted to negotiate with Mr. Buckholtz that we would let him do so. We did not like the thought of Mr. Buckholtz leaving our employ, but we thought it might be a good thing for him as it looked at that time as if the Central Bank was a nice opportunity for a young man in a growing town like Yakima. I sent Buck-

(Testimony of W. T. Triplett.)

holtz up to Mr. Barghoorn's office, telling him that Barghoorn was looking for a man to go to Yakima and ultimately succeed Mr. Ellis as cashier of the bank and that we had recommended him for the position. Later in the day, Buckholtz said to me that he had decided to take that position and asked when he could get away, and I said "To-night if you want to," and he went away that night. Within my knowledge and my contemplation there was no sort of a string to that employment of Buckholtz nor any sort of understanding, express or implied, that he was to be the agent of the Spokane & Eastern. He left our employment at that time, and in accordance with my usual custom I notified the comptroller's department that he was off the pay-roll. There was some salary coming to him for a few days in January, and he afterwards requested the comptroller to send the balance that was due him to his wife, which was done. Speaking for myself, I have told everything that occurred between myself and Buckholtz respecting this employment. We made no arrangement with Buckholtz to send to him for collection notes which were held as collateral for indebtedness of the Central Bank to us. It was discussed in our Executive Committee and we decided that it was all right for Mr. Buckholtz to have those particular notes. We were aware that Mr. Buckholtz was ultimately to succeed Mr. Ellis as cashier of the bank, and Mr. Ellis, with all due respect, did not handle our rediscount notes in the way we thought he [76]

(Testimony of W. T. Triplett.)

ought to. The statements that he sent to us with the notes showed that many of the borrowers had produce which they could sell by the time the notes came due and pay the notes off, and we would charge their accounts with the notes at maturity and send them down there expecting they would be paid and the rediscount liquidated, but instead of that we found he took renewals of them. Of course they were his notes when they were charged to his account and he could do what he pleased with them, but when he resubmitted them to us with ninety days additional time, we didn't like it. Knowing Mr. Buckholtz' confidential position there with Mr. Barghoorn, we had no hesitancy in sending them to him, but we didn't want Ellis to get hold of them. From that time on, they were sent to him individually; that arrangement had no relation to anything that was done before he went away, but had its origin after he had gone to Yakima. It had its origin solely and exclusively in the conversation and correspondence to which we have referred and was solely for the purpose stated. After the Central Bank closed, Mr. Buckholtz called me up, or I called him up, and he said, "the bank is closed," and I said to him that I supposed he was footloose and he said "yes." I said that I had a job for him; that I wanted him to take possession of all the notes and collateral we had down there and look after our interests in Yakima, and he did that for a day or two, and then we had another conversation and I told him to

(Testimony of W. T. Triplett.)

gather up all our collateral and bring it to Spokane, which he did. When he came back to Spokane we discussed his future and decided we needed him in Yakima to look after the items that he had in his possession, and he has been so occupied since that time except an occasional few days when we would send him out to some correspondent bank to go into their affairs with them. Mr. Buckholtz has been in our employ off and on since 1914, and Mr. Rutter and I always looked on him as our prize man; one of the coming young fellows of the bank; and we hated to see him leave the bank for we knew that he would develop into something better. Buckholtz had been out of our employ two or three times since 1914. He went to St. Joe, Idaho, and was cashier of the bank there for two years; absolutely disconnected from us. After that he came back and entered our employ. The Idaho bank was a small bank where there wasn't much opportunity for him to get credit experience [77] which he was desirous of getting, and we finally gave him a position in connection with our Credit Department. Later on, he went to Coos Bay in the employ of a bank there, but some time afterwards he came back to us and we hired him again. With these exceptions he has been in our employ since, although he might have gone out to relieve someone for a week or so in other banks. During his connection with the Coos Bay and Idaho banks, he had no connection whatsoever with us. The peak of the deposits of the Spokane & Eastern

(Testimony of W. T. Triplett.)

Trust Company was on 31st December, 1919; they amounted at that time to fifteen million and some hundred thousand dollars. They commenced to decrease after that. In January, 1920, I think our deposits were running \$11,000,000. Some time in January, 1921, they shrunk to \$9,400,000, or a shrinkage of some \$6,000,000 in a period of little more than a year. This decrease was caused by the general change in financial conditions. Some of the banks suffered likewise and some did not. At the present time our deposits are somewhat over \$9,000,000. The changes I have mentioned are just in the ordinary course of business. As an illustration of how deposits decreased: December 31, 1919, country banks had on deposit with us more than \$6,000,000; last fall their deposits were less than \$2,000,000. We have always rendered more or less assistance to country banks, but especially beginning in the latter part of 1919. The territory over which that assistance extended was from Tacoma on the west to Forsythe, Montana, near the Dakota line, on the east, and from Republic, Washington, down as far as Hollister, Idaho, which is near the Utah line. I am not prepared to give you the exact number of banks we were assisting in one form or another during that time, but it was more than seventy-five and less than one hundred. We would lend them on bills payable secured by collateral; we would rediscount their customers' notes with the bank's endorsement; we would sometimes buy notes outright from them that they wanted

(Testimony of W. T. Triplett.)

to sell so they would not have to endorse them, and there were times when we loaned directly to the bankers, that is, to the men instead of the banks. I don't know the date exactly, but I think the peak of our assistance in that way was in the midsummer of 1920, when we had a little over three and a half million dollars that we had loaned to country banks. It has now gotten [78] down to about \$1,280,000. In July, 1921, it was \$2,600,000 and has been going down since just in the ordinary course of dealing to the figure mentioned. There has been no change in our policy. I think we first began to render assistance to the Central Bank in the spring of 1920. I do not recall the particular circumstance except they applied for credit in the usual way, and we decided to carry some re-discounts for them. From that time on, it continued as shown by the exhibits and by the evidence here. We had no different arrangements with them than we had with other country banks. At the peak the total sum we had invested in assisting the Central Bank was \$212,000. When its doors closed, the amount was less than that, but I haven't the figures here. This was a large sum, but we had a great many other exceptions along the same line. We had a bank at Moscow we loaned over \$100,000 to, including loans and re-discounts; one at Waterville, more than \$175,000; a little bank at Almira, about \$85,000; a bank at Republic, \$75,000; a bank at Wenatchee, \$275,000; and a bank at White Bird, \$200,000. Of course

(Testimony of W. T. Triplett.)

many of the banks we were assisting were in small sums. Aside from the Central Bank most of these banks weathered the storm, though some did not. There was a bank at Nez Perce that we had quite a large sum loaned to, a bank at Kamiah and Orofino; a bank at Lind; one at Grangeville, and there might be one or two others, were closed. Notwithstanding our assistance, they had to close their doors. As to the question of assistance to the Central Bank & Trust Company, I don't think at the outset it was a question of rediscount, but of borrowing in one form or another. They had two forms of borrowing. They would send us their notes secured by collateral and rediscounts bearing their endorsement or guarantee; of these borrowings \$20,000 was secured by Liberty Bonds. Later, they wanted to get an additional sum and they wanted to know if it would be satisfactory to us to dispose of the Liberty Bonds and give us notes for collateral. They sold them to Mr. Barghoorn, but the transaction left us with some slow paper behind the note instead of the Liberty Bonds we had to begin with. On the rediscounts, the system we had was to send the rediscounts to them ten days before they were due, write them a letter, and under the arrangement we had with them we were to charge their account on the due date whether they were paid or not. That custom was followed generally until they got into an overdraft. They had considerable overdrafts [79] in January and I didn't like it. The custom of recharging the

(Testimony of W. T. Triplett.)

discounts on the due date was generally followed until about January 1, 1921. In rediscounting notes, we required financial statements showing the solvency of the borrower and the assets from which he could liquidate the note at maturity. Sometimes the bank's supply of those notes would be more or less depleted; they did not have any more left and we would then take notes that we considered good, but slow. We didn't aid any banks unless they were asking for financial assistance, and the reason they were asking for it was that their resources had run down through shrinkage in deposits, or for some other cause, so that in all of this work we were doing, we were dealing with banks that were in a greater or less degree of trouble, present or anticipated. The assistance we rendered was extended to both members and nonmembers of the Federal Reserve System. Some of the banks which were members of the Federal Reserve System came to us and borrowed without going to the Federal Reserve because they had accounts with us and felt they could lean on us. I first heard of the draft drawn on us by the Central Bank & Trust Company in favor of the Seattle National Bank on the morning of 25th January through a letter from Mr. Buckholtz dated 24th January. The letter begins: "Looks pretty nice to get a slip showing a \$39,000 balance for Saturday, but, now, wait until that big draft hits you tomorrow or Wednesday, which together with draft charged back will mean an overdraft of probably

(Testimony of W. T. Triplett.)

\$15,000 again." That was the first information I had of any outstanding draft of that sort. When I read it, I went to Mr. Rutter to tell him that they had drawn on us for some large amount, evidently. Mr. Rutter picked the letter up and started to read it, and then he took a letter from his desk and handed to me, and I read it, and it mentioned the amount of the draft. That was the first I heard of it. The letter which Mr. Rutter handed me is the one stating that a \$51,000 draft on us had been sent to the Seattle National Bank and in which it was said "If you pay it, the overdraft created will be the limit to date of credit advanced this institution." That was the first intimation I had that any draft of this sort was outstanding. After Mr. Rutter and I had read those two letters, we went to our Executive Committee meeting, and I went to the country banks department [80] and found out how much they had on our books so as to be able to tell the Executive Committee [81] what the status was, and when we saw that it was going to overdraw their account \$27,000 if we paid that draft, we went into executive session and decided not to pay it. We notified Mr. Barghoorn of our decision and Mr. Rutter got in touch with Fred Ross. We had some difficulty in getting hold of Mr. Barghoorn, and I think it was some time about 3:00 o'clock in the afternoon before he was notified of our decision. I had no telephone communication on that subject whatever with Mr. Buckholtz. I would not have discussed the ques-

(Testimony of W. T. Triplett.)

tion of the draft and what the bank was going to do about it over the telephone; absolutely and unqualifiedly those letters were the first intimation I had of any such draft. The stamp which appears on the letter to Mr. Rutter is placed there by the mail clerk who receives the mail, opens it and distributes it. He places a time stamp on each letter as he opens it, and that stamp shows that the letter was received at 8:00 o'clock on the morning of 25th of January. I called Mr. Buckholtz up on the 25th. We first talked about some Liberty Bonds Mr. Barghoorn had back of his notes and I told him about those bonds having been disposed of. Then when we decided to charge certain mature notes to the bank's account, I called him up and asked him to get a pencil, I was going to make some charges against his account and make them right now. He didn't discuss it or ask me any questions about it, but directed me to wait a minute and got a pencil and came back and said "shoot," and I gave him a list of the notes and what they were for, and after we had talked about them for a few minutes I hung up the phone. I am not positive whether I at that time communicated to him the decision of the bank not to pay the draft. The draft came into the clearing long about noon on the 26th and was rejected pursuant to our previous decision. I didn't tell Mr. Buckholtz in any of our conversations on that day to be sure and get those charges in on the books of the bank that day. I didn't know what they were

(Testimony of W. T. Triplett.)

going to do; I merely told him what we were going to do. The remittance from the Central Bank bearing date January 21, 1921, containing the \$45,000 draft, the \$3,000 draft, and a number of smaller items aggregating \$48,594.65, was received at our bank about 9:00 o'clock on the 22d January. I didn't see that remittance as we have a mail teller who handles such matters and this was just entered on our books to their credit in due course. [82] My attention was called to the remittance in this way: The lady who keeps the country bank ledger places on my desk each morning a list of the country banks' overdrafts. The 22d was on Saturday, and on Monday, the next business day, when the overdraft list was placed there, I noticed that the name of the Central Bank which had been there most of the time, with a few exceptions, was missing, and I thought she had made a mistake, so on my way to the executive meeting I stopped and asked her if she had not forgotten that name, and she said that it had made a big deposit. I asked her to show me and she turned to the ledger sheet which showed a quite sizeable balance, \$38,000 or some such amount, and I afterwards looked it up and found the deposit slip. The aggregate of the deposits which the Central Bank made with us are shown in the statement that was introduced in evidence and that corresponds with our books, allowing for the difference in time. There was nothing to direct my attention to that particular deposit slip except it was a good sized amount, and

(Testimony of W. T. Triplett.)

I was glad to see it. There was no letter accompanying it, just the slip, and I had no information on the subject except what the deposit slip gave me, and I received no other information before the 25th as to it. That deposit was received and carried to their credit about 11:00 o'clock on the morning of the 22d of January; on the 21st there was an outstanding draft against us came in for \$9100; on the 22d, one for \$500 and one for \$58.50; on the 24th, one for \$5.76; one for \$303.75, one for \$1438.62, and one for \$17,789.38. These drafts were paid in due course by the bank and they were what depleted the balance so that the cash balance at the end of business on the 24th in favor of the Central Bank & Trust Company was a little more than \$24,000; no drafts drawn against us by the Central Bank came in on the 25th. We paid some drafts on the 26th after that came in. Between then and the morning of the 26th we received a remittance from them of \$921.21 and one for \$143.09. There were other credits on the account put on that day, notes that they had sent us for rediscount. I think the balance was less than \$2,000 at the close of business on the 25th after we had charged off other matters. On the 25th, we charged up [83] rediscounts. After we decided not to pay the draft, we decided that we would charge up past due notes to the amount of \$25,672.64. We only charged up past due notes, notes that were supposed to have been paid on their due dates. When that was done it would leave the

(Testimony of W. T. Triplett.)

account less than \$2,000. I would have to get the figures to be exact on that. No confidential matters were discussed between Mr. Buchholtz and me over the long distance telephone; we would not discuss any matters over the telephone that might get to the public and be detrimental to the bank. Matters of importance that we would not object to anyone hearing would be discussed over the telephone, but nothing concerning the welfare of the bank; such matters were committed to written correspondence. The Central Bank had had an overdraft with us for some little time, in fact during the year 1920, and running along into January, 1921. In the early part of January we told Mr. Barghoorn that we were not going to pay any more overdrafts. In fact, the Executive Committee went on record against paying overdrafts for any country bank, but we didn't adhere to that rule rigidly because a check might come in and if we turned it down it would embarrass the bank, so we were more or less lenient. However, he was informed along in January that he must cover the overdraft and keep it covered, and after he hired Mr. Buchholtz and took him to Yakima they sent us enough rediscounts to cover the overdraft. That meant that we were carrying a much larger sum for the bank than we had been in spite of continued rediscounts and the substitution of collateral that would enable him to sell his Liberty Bonds, the account kept being overdrawn, and it ran into quite a considerable figure. It got to a place where we

(Testimony of W. T. Triplett.)

thought it was out of all reason. The paper that was coming in to us was not of the highest type; it looked like it might be a little slow to realize on, and when we had as high as \$200,000 loaned to the bank, we felt it would be foolish to burden ourselves with paper that might ultimately be a loss. The paper simply wasn't satisfactory, and we decided that if we paid the overdraft of \$27,000, all we could get for it would be a [84] bunch of paper that wasn't satisfactory, as the paper that had been sent us before was not satisfactory, and so we decided we would not pay it. That was the sole reason for our refusal. Prior to the time Mr. Buchholtz went to the bank in the month of January, our source of information as to the condition of the bank and its prospects and outlook was either Mr. Barghoorn or Mr. Ellis. After Mr. Buchholtz was hired, he did all the corresponding. He kept us informed by letter and telephone. Outside of what he may have said on the telephone, the letters in evidence gave us the total information as to the condition of the bank. Nothing that would reflect upon the condition of the bank was talked over the telephone. I don't think anything serious was talked in that way because we would not have discussed it over the telephone. Up to the time that I read the letter to Mr. Rutter dated 23d January, I had no idea that the bank was insolvent or would go on the rocks. We had letters from Mr. Buchholtz from time to time; some days he would feel discouraged,

(Testimony of W. T. Triplett.)

and the next day he would say things were coming along fine; that is all we knew about the condition of the bank. I don't recall having any talk with Mr. Barghoorn after Mr. Buchholtz went down there except to show him some letters I had from Mr. Buchholtz.

On cross-examination the witness testified as follows: The rendering of financial assistance to other banks was done in the regular course of our banking business. When we loaned money we charged interest for it, and when we rediscounted paper we would not take any that we did not think was good. We expected that by extending assistance to these banks, a willingness would be created to bring other business to us. We were willing to assist the Central Bank, but did not wish to lose money in doing so. I am fond of Mr. Buchholtz personally and consider him a very valuable man. I wouldn't like to lose him, but we have men higher in our organization that we have let go to smaller banks if we felt it was for their interest, and we thought it was a good opportunity for Mr. Buchholtz to go to Yakima and work up business for himself. He is a married man, and his wife did not leave Spokane. His home is in Spokane and he is still [85] living there. When he came down here I thought we had lost him for good. When I said in the letter of 5th January to Mr. Ellis that "We have, after talking to Mr. Barghoorn, credited you with \$12,681.05 to cover the proceeds of the rediscounts

(Testimony of W. T. Triplett.)

sent by you. Two of the notes were not altogether satisfactory, namely those of J. L. Parker and the Western Fruit and Produce Company; but as Mr. Buchholtz, who is one of our right hand men is accompanying Mr. Barghoorn to-night, he will endeavor to obtain substitution of other paper." I understood that Mr. Buchholtz was going to endeavor to obtain the substitution of other paper for the Central Bank to enable it to secure money. We turned those notes down, but took them temporarily in order to tide them over. It was our paper subject to their getting something else that would be satisfactory. When I said that Mr. Buchholtz is our right hand man, he had been with us a great many years and we had not yet got to the place where we realized that he was gone. After the Central Bank closed its doors, he was back on our pay-roll immediately. I know that the liquidator in charge of the Central Bank has refused to allow Mr. Buchholtz' claim for salary because he said that it was not established to his satisfaction that Mr. Buchholtz was on their pay-roll. I didn't like the way Mr. Ellis handled our rediscounts. If we were going to render such assistance to the Central Bank as it requested of us and needed, we felt it ought to have a man there who would be able to pick out the kind of paper that would be satisfactory to us. If the Central Bank wanted to get the assistance, it was up to them to put somebody in there that would do it our way. They could not get assistance unless

(Testimony of W. T. Triplett.)

they furnished us the kind of paper we wanted, and I had sufficient confidence in Mr. Buchholtz to believe that he understood our requirements and would be able to do it. We didn't want Mr. Ellis to get hold of our rediscounts at all. Mr. Ellis was cashier of the bank, but we knew Mr. Buchholtz' confidential relations with Mr. Barghoorn and that Buchholtz would ultimately succeed Ellis as cashier of the bank. During Mr. Buchholtz' stay in Yakima he did not write to Mr. Barghoorn, but he wrote letters to me that I showed Mr. Barghoorn. Thereupon the following questions were put to the witness by counsel for the plaintiff, and the following answers given:

[86] Q. You knew of Mr. Buchholtz' confidential relations with Mr. Barghoorn, and yet during all of Mr. Buchholtz' stay here he never wrote a letter to Mr. Barghoorn?

A. No, but he did write letters to me that I showed Mr. Barghoorn.

Q. Sure, that is the way it was done; that is the way Mr. Buchholtz communicated everything he had to say to Mr. Barghoorn, whom you claim was his employer,—did it by writing to you direct, and you showed it to Mr. Barghoorn if you chose. That is true, isn't it? A. If I chose, yes.

There was a run on the Central Bank during the first of January. After it had been going on for three or four days, we heard they were having some heavy calls. On the 5th of January Mr. Buchholtz went down with Mr. Barghoorn. When

(Testimony of W. T. Triplett.)

Mr. Buchholtz went to Yakima, the Central Bank owed us \$142,000. Some time afterward, in January, it went up to \$212,000; that was made up largely of rediscounts which Buchholtz sent us. When the account was closed, I think the amount of the Central Bank's indebtedness to us was \$182,000, but it might have been \$162,000; I can get the figures later. After January 1st, we charged some rediscounts back promptly and some we didn't. The main reason we didn't charge them all back was because we didn't want a big overdraft on the books. We own a rediscount until it is either taken up by the bank or paid. We changed our policy in January of not charging back rediscounts after they were dishonored because we didn't want any overdraft increases. The Central Bank owed us \$142,000, part of which was secured by Liberty Bonds and might be eliminated from the calculation, but later on they had run the amount up to \$212,000 and we had to render assistance on [87] paper that we considered slower. We had increased the load we were carrying for them and did not want to carry an overdraft in addition. If we had charged the rediscounts up to them and returned the paper, we would have had merely a bank overdraft, while if we held the paper we would have something to show for it. We would rather have a past due note than an overdraft. We held some fruit drafts that we didn't charge up for a long time. They are a different thing from rediscounts because they

(Testimony of W. T. Triplett.)

are dependent on the arrival of cars, transportation facilities, etc. When I said to Mr. Buckholtz in a letter that I was enclosing a list of outstanding fruit drafts some of which were a hundred years old, more or less, that was just a figure of speech. They had been out for some time. As soon as the fruit began to move, the Central Bank made arrangements with us whereby they were to send us drafts drawn payable on arrival of cars with bills of lading attached. They would send them to us like any other cash item and we would give them credit for them, and when they were paid we would charge interest for the time they were outstanding. If any of the drafts were dishonored, or the apples froze in transit, or any other condition of that kind, we charged the drafts back to the Central Bank. We usually try to give them all the time they need to get the drafts paid so as not to be charging something back that would reduce their account and disturb their reserve. It was the same arrangement we had with some other banks. I first learned of the outstanding draft of \$51,000 on 25th January. This was through a letter written by Mr. Buckholtz on the 23d to Mr. Rutter. At that time the Central Bank had a credit balance with us of about \$24,000, and we charged back to them enough rediscount paper to cover that balance. I called up Mr. Buckholtz and told him that we were going to make these charge-backs on our books. I did this because I knew it would disturb their reserve and it would be up to

(Testimony of W. T. Triplett.)

them to raise funds somewhere. If I had waited to advise him by mail, he would not have known of the charge-backs for another day, and we wanted him to know right away. Mr. Buckholtz said in his letter that if the draft was not honored the bank would be busted, but I didn't know whether that meant anything because there are plenty of ways for raising money at the eleventh hour. If we had paid that \$51,000 draft, the Central Bank account with us would have been overdrawn some \$27,000. They had had as large an overdraft [88] as that before, but we didn't want to go on and create another overdraft. They had an overdraft with us almost continuously during the month of January and until they sent us some thirty thousand odd dollars worth of paper that practically wiped that out and eliminated the overdraft. My attention was directed on the 24th to the large remittance received on the 22d. I found out they had sent us a remittance of forty-odd thousand dollars in which were two large items, one not exceptionally large and the other of considerable size, \$45,000.

Testimony of R. L. Rutter, for Defendants.

R. L. RUTTER on direct examination testified as follows: I am president of the Spokane & Eastern Trust Company; have been with that company for about twenty-seven years. The general policy of the company toward getting employees for other banks and extending financial assistance

(Testimony of R. L. Rutter.)

to other banks is as testified to by Mr. Triplett. I believe Mr. Barghoorn bought the control of the Central Bank in the first half of 1919. Shortly afterwards he arranged with me for our bank to act as his correspondent. It was just the ordinary arrangement with the country bank; we acted as their correspondent, taking rediscounts, etc., as the business demanded. In the latter part of 1920, Mr. Barghoorn told me it was necessary for him to get someone to succeed Mr. Ellis. He negotiated with Mr. Richards, a gentleman connected with the Spokane & Eastern. Mr. Richards went to Yakima for a day or two and decided not to take the offer. Mr. Barghoorn continued to inquire about getting someone, and finally he decided to employ Mr. Buckholtz. I had known Mr. Buckholtz well since 1914. I keep in close touch with my employees, have an actual personal acquaintance with all of them and am on friendly terms with them. I had a great deal of confidence in Mr. Buckholtz and have yet. The only conversation I had with him about the matter was when he came to me and asked if we were trying to get rid of him. I assured him we were not, but thought it a good opportunity for him and a good thing for Mr. Barghoorn. He was concerned about the reason for our recommending him for the place. We knew about his being employed and approved of it. There was no understanding, express or reserved, on my part, or the part of the bank, or anybody connected with it, that Mr. Buckholtz should go to

(Testimony of R. L. Rutter.)

Yakima as the agent of the bank. He severed his connection not only in form, but in fact, with our bank. Upon my conscience and without reserve of any kind or [89] character whatever; that is the whole truth. I first heard of this \$51,000 draft by a letter from Mr. Buckholtz dated 23d January and received 25th January. That is the first I had heard of it in any shape, manner or form. I do not think it was possible that any other employee or officer of the bank could have been informed of it before. If anyone from Yakima had called up to tell our bank of such a draft, I would have been informed. Mr. Triplett brought his letter down dated a day later but received the same morning, and we went into the Executive Committee and there determined not to pay the draft, after calling in and consulting with our attorney Will Graves, who is a member of our board of directors. During the time Mr. Buckholtz was in Yakima, we had no idea that he would act as the agent of the bank. After our employees leave us and go to other banks, they frequently write us telling us their troubles and asking advice, and come to us for help, which they generally get. With respect to the severance of Mr. Barghoorn's connection as a director with our bank, a few days before the annual meeting he came into my office and said that he didn't care to be elected at the next meeting. He gave no reason, and I told him it would be all right; that was all there was to it. With respect to the letter from Mr. Buchholtz re-

(Testimony of R. L. Rutter.)

questing me to extend my good offices to keep the bank examiners away from him if possible, I did nothing about that in any way; never mentioned it to anyone nor directed anybody else to. I am sure I could not have done it if I had tried to, but I had no notion of doing it anyhow. I remember the meeting of the Guaranty Board testified to by Mr. Hay. The Governor said something about a draft having been turned down, and I told him that I didn't think it was possible; then something was said about somebody being over there, and I said Mr. Buchholtz was there working for Mr. Barghoorn. I told him who Buchholtz was and that I knew he was a good man, and so on. Whatever form of expression I may have used, I did not intend to convey the idea that he was over there representing us, for I had no idea of that kind in my own mind. I don't remember that date, but if it was the 22d, as testified to by the examiner, no draft had been turned down then and I had not heard of any [90] draft that was likely to be turned down, and didn't suppose any would be. [91]

On cross-examination the witness testified as follows: This matter between the Governor and the Bank Examiner interested me in no other way than in the general welfare of the financial interests of the state. My recollection is that it was said that a draft had been presented and not paid. I didn't ask the Governor not to press it. As I remember it, I told him that Mr. Buckholtz, a good

(Testimony of James A. Loudon.)

man, was over there in the employ of Mr. Barghoorn.

Testimony of James A. Loudon, for Defendants.

JAMES A. LOUDON, on direct examination testified as follows: I am connected with the First National Bank of Yakima. Commencing with the 1st of December, 1920, and going on during the month of January, 1921, in a period of six weeks, there was a decrease of about 13% in our deposits. It was a gradual decrease caused by the cessation of fruit shipments.

On cross-examination the witness testified as follows: There was no run on our bank, that happens every year. I heard there was a run on the Central Bank in the early part of last January.

Testimony of H. C. Lucas, for Defendants.

H. C. LUCAS on direct examination testified as follows: I am president of the Yakima Trust Company. There was a decrease in the deposits in our bank of about 16% during the latter part of December and January, 1921. It was caused in the same general way that Mr. Loudon spoke of.

Testimony for Charles Heath, for Defendants.

CHARLES HEATH on direct examination testified as follows: I am connected with the Yakima Valley Bank. During the latter part of December, 1920, and January, 1921, there was a decrease of deposits in our bank of about 13%.

Testimony of W. F. Buckholtz, for Defendants.

W. F. BUCKHOLTZ testified on direct examination as follows: I am the Buckholtz that has already testified for the plaintiff; I am 28 years of age; was born in Minnesota of German parentage. I first entered the employ of the Spokane & Eastern Trust Company in the early part of 1914 as book-keeper. I continued in that capacity for a year or two; then went out to a country bank for about two months while the cashier was away. I was just employed to take his place and recommended by the Spokane & Eastern Trust Company. [92] When I came back I returned to the employment of the Spokane & Eastern, but during that summer there were several times that I went out to other banks temporarily to relieve people that were on vacations or sick. I went on the recommendation of the Spokane & Eastern, but the bank to which I went paid my salary. In February of 1916, on the recommendation of the Spokane & Eastern, I got the position as cashier of the First State Bank of St. Joe, Idaho. I was with that bank a little over two years, and then went back into the credit department of the Spokane & Eastern, remaining with it continuously for two years, about. Then I severed my connection with the Spokane & Eastern and went to Myrtle Point, Oregon, and acted as cashier of a bank there for about four months. I went there on the recommendation of the Spokane & Eastern, and after I quit I took a little trip and

(Testimony of W. F. Buckholtz.)

finally dropped into Spokane and went back to work. I have had no other employment by any other bank since that time until I came to Yakima. Somebody told me that Mr. Barghoorn wanted to see me, and I went to his office and had quite a lengthy conversation with him. He told me that he knew that I had had considerable credit experience and that Mr. Rutter had recommended me very highly as a man who was capable of handling credit in his bank at Yakima. I didn't give him an answer at that time. I was surprised at his proposition and felt as though Mr. Rutter wanted to get me out, and it kind of hurt my feelings, and I went to Mr. Rutter and had a talk with him. He assured me that it was not a question of getting rid of me, but that it was a mighty good thing for me; and after talking it over with him I told Mr. Barghoorn I would go. Mr. Barghoorn told me that he eventually intended that I should supersede Mr. Ellis and be cashier of the bank. I left that night with Mr. Barghoorn to go to Yakima and had another long talk on the train. He explained to me in detail what my duties were to be, to work together, to work into the credit; what I was to do; what Mr. Ellis was to do, and how to get along. Thereupon the witness testified as follows: "I asked him who I was to look to as my boss, if there was going to be a boss and who it would be, and he said there would be no one between he and I; I said, 'Well, you have a cashier there,' and he said, 'That part of it [93] is all right, eventually I intend

(Testimony of W. F. Buckholtz.)

for you to be cashier.' ” At that time I totally and completely severed my relations with the Spokane & Eastern. There was no express, implied or inferred agreement on my part, or any suggestion of any sort made to me by anybody that I was to be in Yakima as a representative of the Spokane & Eastern, and I did not understand, suppose or infer [94] that I was to be. I remember the correspondence with Mr. Triplett in which I said, in substance, that I saw no objection to taking rediscount paper as it came due and holding it as agent of the Spokane & Eastern. It first came up in this manner: A borrower would come in to deal about his note, to make changes, renew or reduce it, or take security, and the note would not be in the bank; it was in Spokane. It made it inconvenient, and I wanted Mr. Triplett to send the notes that were past due, or nearly due, down here, and told him I would look after them for him; that is, look after collections and renewals, and would return the renewals, and so on. I was going to do that in my individual capacity and was not going to be paid anything for doing it by the Spokane & Eastern. It was just for the accommodation of the Spokane & Eastern and also for our benefit. I wanted to reduce the rediscounts as rapidly as possible. In my conversation with Mr. Barghoorn on the train he talked to me about the handling of the rediscounts. He explained to me that the Spokane & Eastern had complained about the shape the rediscount notes would get in; that they would not

(Testimony of W. F. Buckholtz.)

have sufficient information on them for the bank to ascertain whether they were good liquid paper, or sound or not, and the result was that it entailed a great deal of correspondence before they would get anywhere. He said Mr. Rutter had told him that I knew pretty well what their requirements were and what was necessary for them to pass on a note, and that he felt it would save a lot of confusion and delay. When I got to Yakima, I took charge of the collections and the paper, what is generally called the Credit Department. I did the bulk of that work, although I would consult Mr. Ellis very often and occasionally he would handle a matter by himself. A great many times, however, I would handle it without consulting him. I tried to run it in the same way that I would run the affairs of any other bank. In some of these letters, I speak of not having nerve enough to send them certain kinds of paper, etc. That did not refer to the soundness of the paper, but to its liquidity. In January, the Spokane & Eastern was not financing crops for that year that on the face of them the notes would not be paid until the fall of 1921. They held me to paper that had the actual commodity behind it and which would be liquidated in a short period. They commenced to make payments on the crop in 1921, usually in April, May and June, so what I said about those notes not being good, and so on, unless otherwise [95] explained, refers to their liquidity. My letters and telephone calls between Yakima and Spokane were with Mr.

(Testimony of W. F. Buckholtz.)

Rutter and Mr. Triplett, except a time or two that I called up Mr. Hubbard. I communicated with Mr. Rutter because he was the president of the bank and with Mr. Triplett because he had the management of the country bank business for the Spokane & Eastern. The calls to Hubbard did not relate in any way to the business of the Central Bank. He had a good-sized post-dated check on the First National Bank of Yakima for collection, and he wanted it promptly presented for payment the day it matured, and he sent it to me and asked me as a personal favor to attend to it for him. With respect to my wife remaining in Spokane while I was in Yakima, I have my own home in Spokane and my wife and family have lived there for quite a while. We don't change about very much. When I went to Myrtle Point, which is a long ways off, and was there for two or three months, I left her in Spokane at that time. That did not imply that I expected my employment would be temporary. I expected it to be permanent, and if it had been I was going to bring her to Yakima. I remember the occasion I went to see Mr. Loudon at his bank and gave him a card. The occasion of my going into his bank was that I wanted to get his ideas as to crop movement and conditions and the general tendency in Yakima at that time, and I dropped in there one noon and introduced myself and told him I was over at the Central Bank, and he said that he understood someone was there from the Spokane & Eastern and asked if I was, and I said

(Testimony of W. F. Buckholtz.)

yes. Before I left I gave him one of my cards. It happened to be the only cards I had; it was the same kind of a card that I gave Miner of Seattle. I had had those cards printed a couple of years before that, while I was working for the Spokane & Eastern. I had quite a large supply. They were the only business cards I had and it was for that reason that I used them. As to the conversation with Mr. Miner, I came out of the hotel with him and some other men, and I asked him if he was from the Seattle National Bank, and he said yes, and we introduced ourselves, and he asked how I spelled my name. I told him it was a hard name to remember and I gave him one of these cards. He asked how long I had been with the Spokane & Eastern, and I said probably five or six years. We had no [96] other conversation of any length except a few words down in the Central Bank. Minor and Nossaman were there gathering information, and one of them asked if I knew how this happened, and I said yes, and offered to assist them in gathering the facts. I was there and doing nothing. I cannot recall what the conversation was, but we did talk about it as we stood around there. I don't recall that I said the bank would not pay more than 30%, but it is quite possible that I did; that was a wild estimate. I was down there during those conferences and heard the list of losses that the Yakima banks had piled up, and it was apparent to me, after seeing what they aggregated, and there were various estimates, some joking and

(Testimony of W. F. Buckholtz.)

some serious, mentioned after all hopes had been given up, and I believe they estimated losses at about \$100,000, and I took into consideration their deposits and the amount of paper in the pouch, and lumped it off at about 30%. I was confident those local bankers knew what they were talking about. I don't remember saying what the percentage would be, but that is about the way I thought about it after hearing the Yakima bankers at the conference. I did not tell Miner that I had telephoned the Spokane & Eastern of the drawing of this draft. I didn't telephone the Spokane & Eastern about it. I never talked about that draft to anybody at any time. I did not communicate the fact of that draft having been drawn to the Spokane & Eastern by any other means than the two letters, one on the 23d and the other the 24th of January. I didn't communicate to any of the officers of the Spokane & Eastern Trust Company anything about the condition of the bank, except current business, save as it appears in the letters that have been put in evidence, and so far as I know those are all the letters that I wrote them. The cash letter which the Seattle National Bank sent with its collections was never seen by me. The first I knew about it was late in the afternoon, when I think the bank was closed. I was in the habit of occasionally dropping around to the draft register and I saw a draft registered on the book drawn on the Spokane & Eastern, and I immediately asked Mr. Lemon what it was, and that was my first knowledge of it. He went on to

(Testimony of W. F. Buckholtz.)

explain what it was. I had not talked those collection items over with Mr. Ellis when [97] they came in. My first knowledge of their receipt was when I saw the draft registered on the register. I think Mr. Lemon called my attention to the two large checks in the remittance letter draft. He called my attention to how it occurred. He said there was a large collection letter which came from the Seattle National Bank, and the items had been put in the clearings and settlement made and a good-sized remittance was coming to Spokane as a result of what they won in the clearings. Just what items were going to Spokane I didn't know until about a month ago, since this lawsuit has been started. I didn't know what items went to Spokane, what kind of drafts, or what the items were until after the lawsuit was started. I didn't know the method of clearance in detail while I was employed at the Central Bank. I knew it was done through the Yakima Valley Bank, but I didn't go into it because I had nothing to do with that department. I first knew Mr. Triplett when I was a schoolboy in Spokane, and he and I have been friends for a good many years. During the time of my employment in the Spokane & Eastern, I had a great deal to do with him outside of our business relations. We were on very friendly and familiar terms and I was very fond of him.

On cross-examination the witness testified as follows: During the last two or three years I have

(Testimony of W. F. Buckholtz.)

only been at home about a fourth of my time. The occasion for my being away so much was working in other banks, and sometimes an occasional trip. The last bank I was employed in was at Myrtle Point in the spring of 1919. The witness then went on to enumerate a number of banks in which he had worked temporarily to relieve persons from president to bookkeeper absent on vacation for periods ranging from two weeks to two months. "When I got through I went home." Resuming, he testified: In my conversation with Mr. Loudon he asked me if I was making an audit or going through the assets, and I said I was working on that; I had been doing something along those lines. I believe I told him I had done such work before, but I don't know that I said I had just finished such a job. I have occasionally in calling on a bank, or sent out to a bank in places [98] where they were friendly, gone over the assets and made reports as to classifying assets in different classes. My first conversation with Mr. Barghoorn about going to Yakima was shortly after New Years. I think it was on the day that I went to Yakima. I don't remember exactly the time of day when I had the conversation with Mr. Barghoorn and Mr. Triplett. I think my last conversation with Mr. Triplett was late in the afternoon because he was signing his letters, and he usually does that about 5:00 o'clock. I went home early and told my wife I was going to Yakima. I left with Mr. Barghoorn on the 6:30 train that night. When I went to Yakima

(Testimony of W. F. Buckholtz.)

I had no understanding with the Board of Directors of the Central Bank. The first money I drew from the Central Bank, if I remember correctly, was the 15th of January. I think it was \$80. That wasn't expense money. The employees were paid twice a month and Mr. Ellis had made out the pay checks. He asked me if I wanted any money, and I said that perhaps I had better draw some, and he asked me how much, and I didn't want to draw more than I had earned, and I just estimated in a hurry that there would be \$80 coming at least, and asked him for that. I drew another \$100 later in the month, the 25th or 26th. From time to time there were substitutions of notes which had been rediscounted for the Spokane & Eastern. I attended to the substitution. I would select from the bills receivable of the Central Bank the notes that were to be sent to the Spokane & Eastern for rediscount. Frequently notes rediscounted by the Central Bank had to be renewed. I handled all those notes. When a man came in, I talked to him, and if there was a renewal made, I made it. The Spokane & Eastern sent those past due notes and rediscounts direct to me after I had been there for a while. The correspondence will show when that commenced. I reached Yakima on the morning of the 6th. I did not pay any attention to items that came into the Central Bank by mail unless it happened to be something in payment of a note. In that case it would probably be turned over to me. I wasn't working on the lines of the remittances received

(Testimony of W. F. Buckholtz.)

by the bank, but I made a practice of looking to see what our statement was every night. I knew substantially the amount of [99] remittances that the Central Bank made to Spokane on 21st January. I didn't see the remittance letter to Spokane. The remittance of \$48,000 didn't escape my attention. I saw on the draft register that this had occurred and I asked Mr. Lemon the nature of it. I saw this draft of \$51,000 on Spokane before it went out. It was a good-sized one and I knew the Central Bank didn't have any money in Spokane to meet it unless they were sending money there for that purpose. I asked Mr. Lemon if we had lost any in Spokane that day and he said no and I understood from that that there was enough going to cover it. I understood that our balance didn't depreciate any, that there was something else went to our credit, because we didn't lose there. I took it for granted that there was a remittance going to Spokane of approximately that size. Thereupon the following questions were put to the witness by counsel for the plaintiff, and the following answers given:

Q. Did you make any inquiry of Mr. Lemon as to what it was, how it happened he had enough to send to Spokane to meet a draft of that size?

A. Well, I took it for granted that there was a remittance of approximately that size going.

Q. Didn't it excite your curiosity at all as to where it came from, that amount of money?

A. Yes, I have already explained I asked him the nature of it and he told me.

Testimony of W. T. Triplett, for Defendants.

W. T. TRIPLETT testified on direct examination as follows: Concerning the figures I was asked about a while ago, I have taken them from the statement of the Central Bank. At the close of business on 24th January, the Central Bank had a balance of \$24,682.58 on our books. Some time during the 25th, we received cash letters and also rediscounts from the Central Bank which were credited to their account, giving them a balance of \$31,704.03 on our books. However, those [100] entries did not all go on the books at any one time. Other items may have been on before that happened, and I don't think you will ever find a balance of \$31,000 on the books at one time. After we had charged up the rediscounts that were past due and had made some other charges of exchange and interest, and two or three fruit drafts, the Central Bank had a balance of \$170.92. I don't think there were any drafts paid on the 25th January, but there were on the 26th. The Central Bank owed us at the close of business on the 25th one hundred sixty-two thousand odd dollars. That included bills payable and rediscounts, and that was \$20,000 more than they owed when Mr. Buchholtz went to Yakima. The Central Bank owed us between \$185,000 and \$190,000 before we charged those items back on the 25th. The amount the Central Bank owed us when Mr. Buchholtz went away was about \$142,000, part of which was secured by Liberty Bonds. The Liberty Bonds had been sold and in place of them we got

(Testimony of W. T. Triplett.)

slow notes, many of which are not yet paid. The character of the [101] notes we held when the Central Bank closed was very much worse than the notes we held when Mr. Buchholtz came over. That occurred in this way: We were in the habit of charging their account with the notes when they came due. It was up to them to make their account good after that was done. It was up to them to furnish us with notes that were satisfactory to us. As time went on, the notes became of a slower nature. They collected some of the better ones and we had up quite a little more money and had to take a slower class of paper for it. The notes became worse in the process of increasing the amount. The notes and other items that were charged back to the Central Bank on the 25th of January were turned over to the Central Bank and have never been in our possession since. They were sent to the Central Bank and so far as we know them must have gone into the hands of the receiver.

On cross-examination, the witness testified as follows: \$142,000 of the \$162,000 that the Central Bank owed the Spokane & Eastern was represented by rediscount notes; the balance of it by bills payable secured by notes. The bills payable was a note of the Central Bank & Trust Company in our favor. I am not sure whether Mr Barghoorn was an endorser on it or not. The condition of our account when the Central Bank closed was worse than when Mr. Buckholtz went to Yakima. We had \$20,000

(Testimony of W. T. Triplett.)

worth of Liberty Bonds when he went over and we permitted the Central Bank to sell them and give us a bunch of slow notes. The scheme of improving the Ellis arrangement didn't have time to pan out. At the close of business on 25th of January, the Central Bank's balance with us was \$170. We charged the notes to the bank on that day; they were past due and we had a right to.

On redirect examination the witness testified as follows: I heard Mr. Miner testify that Mr Barghoorn told him that before the blow-up the Spokane & Eastern had gotten \$75,000 worth of collateral out of him. I cannot tell you when the Spokane & Eastern got collateral from him, but the Central Bank was borrowing from us, Mr. Barghoorn had some personal loans in our bank, and his bank in Colville also had some loans. In view of the amount that we were carrying in his interest we thought it only right that he should personally get behind such paper as we were carrying for him. We talked about the matter several times and finally it came to a head one night when [102] Mr. Barghoorn was going away. A paper was drawn up by which he endorsed all the paper we had of the Central Bank, Franc Investment Company, Sikko Barghoorn and the Colville Loan & Trust Company. We got an assignment of his profit in a dredging contract in Idaho. We didn't get anything out of it; the machine finally burned up. That occurred before Buchholtz came to Yakima.

It was stated that Mr. Barghoorn had been a director of the Spokane & Eastern Trust Company since 1908. [103]

There was introduced in evidence a sheet showing the debits against the general account of the Spokane & Eastern Trust Company with the Central Bank & Trust Company from the 3d to the 26th January, both inclusive, such debits being on account of rediscounted notes and cash items remitted by the Central Bank & Trust Company to the Spokane & Eastern Trust Company on the days hereafter shown. The amounts of the notes remitted for discount and the dates thereof were as follows:

January 3, 1921	\$12,304.60
4, 1921	6,000.00
8, 1921	47,127.58
Sold note (Franc Inv. note).....	11,000.00
January 11, 1921	21,250.00
Jan. 12, 1921	7,839.91
January 17, 1921	5,250.00
January 18, 1921	2,900.00
January 19, 1921	4,600.00
January 20, 1921	6,100.00
January 21, 1921	5,775.00
January 22, 1921	500.00
January 24, 1921	6,400.00
January 26, 1921	4,900.00

[104]

The cash letters or cash remittances during the same period showing the amounts and the dates thereof were as follows:

Date.	Amount.
Jan. 3, 1921	\$6,663.37
4	3,443.33
5	4,416.35
6	4,429.12
7	4,746.13
8	792.05
10	17,908.41
11	6,138.55
12	637.14
13	6,336.78
14	1,347.14
15	6,918.45
17	6,815.20
18	16,818.37
19	2,974.50
20	3,731.73
21	48,594.60
22	2,449.28
24	3,985.73
25	6,907.41
26	794.96

[105]

There was also introduced in evidence a sheet showing drafts drawn by the Central Bank on the Spokane & Eastern Trust Company in favor of the Seattle National Bank covering remittance letters and paid by the Spokane & Eastern from January 14th to 27th of 1921; and showing also that these drafts were similar to many others in the files of the Central Bank covering several months. The particular items shown were draft No. 2242, dated 13th

January, 1921, for \$1498.40, paid 17th January; No. 2239, dated 12th January, for \$3294.71, paid 17th January; No 2241, dated 13th January, for \$6319.36, paid 17th January; No. 2245, dated 14th January, for \$12,784.77, paid 19th January; No. 2249, dated 17th January, for \$2636, paid 20th January; No. 2250, dated 17th January, for \$566.79, paid 20th January; No. 2252, dated 18th January, for \$17,798.38, paid 24th January; No 2257, dated 20th January, for \$1438.62 paid 24th January; No. 2262, dated 22d January, for \$541.22, paid 26th January.

Sheets were introduced in evidence showing cash letters sent by the Central Bank to the Spokane & Eastern Trust Company containing transfer drafts drawn by the Yakima Valley Bank during the months of October, November, December and January. Those showing drafts for considerable amounts upon the Fidelity National Bank of Spokane and the Bank of California of Tacoma were as follows: [106]

On October 11th, the cash letter contained a draft on the Fidelity National Bank for \$13,000, the total cash letter being \$13,286.25; On October 16th, there appeared a draft on the Bank of California of Tacoma for \$31,000, total remittance being \$33,301.68. On November 15th there appeared a draft on the Fidelity National Bank of Spokane for \$20,000, total remittance being \$22,298.23; on November 22d there appeared a draft on the Fidelity National Bank of \$10,000, total remittance being \$18,302.41; on December 13th, draft on the Bank of California of Tacoma for \$5,000 the total remittance being

\$8,047.89; on December 20th, draft on the Fidelity National for \$8,000, total remittance being \$8510.50; on January 10th there appeared draft on the Fidelity National for \$4,000, the total remittance being \$6041.46; on January 18th there appeared a draft on the Fidelity National for \$11,000, the total remittance being \$16,812.37. [107]

It also showed that the total amount of such cash letters during the month of October, 1920, was \$421,447.31; for the month of November, 1920, \$317,722.18; for the month of December, 1920, \$156,440.67 and for the month of January, 1921, \$151,548.60. [108]

The following letters are those which were introduced in one bunch as Exhibit "7" by plaintiffs. The letters signed by W. F. Buckholtz are all written upon letter-heads of the Central Bank and Trust Company.

Plaintiff's Exhibit No. 7.

Jan. 6, 1921.

W. T. Triplett, Secy.

Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Mr. Triplett:

(Separate Proposition.)

I am enclosing Franc Inv. note \$11,000.00 endorsed S. B. secured by miscellaneous collateral enclosed, endorsed without recourse.

Don't swear but I want you to take this over and credit account of this bank if you can get it thru. The collateral is all of a slow nature but

there are a couple of mortgages there which are no doubt covering good values and will add something.

I figure that you are not banking on the C. B. & Tr. Co. endorsement anyway; you have got an overdraft and will have. You have S. B.'s guaranty and are getting his assignment on dredging profits and in general it is his personal credit to a large extent that you are considering.

As it stands, you have an unsecured overdraft, by taking this over without recourse. I'd say it is not making it any worse and needless to say will help the situation here immensely. I take it the dredging operation has been thoroly explained and if that pans out as expected, S. B. will lift all his personal stuff there and on the way down here he said he expected some substantial returns on that during February. He of course has some scattered debts to meet, but all of it won't need to be paid immediately.

I am doing this on my own initiative—not at the request or suggestion of S. B. or anyone else, and I hope you will plug your darndest on this.

Yours truly,

(Signed) W. F. BUCKHOLTZ.

1-7-21.

W. T. Triplett, Secy.

Enclosed are the following notes:

J. H. Ames.....	\$170.00
J. D. Bridges.....	200.00
E. F. Burnell.....	225.00
J. F. Dukes.....	167.00

Don't swear.

Earl Hughes	217.00
H. Moller.....	70.00
Chas. E. Perry.....	225.00
Curtis E. Pierson.....	100.00
Lambert Parrish	60.00
N. B. Strew	120.00
John Wagner	56.40
F. H. Fischer.....	
End. Fred S. Ross.....	3318.00
S. Coburn	3000.00

Total 7928.40 All endorsed
by bank.

[109]

All but the last, you will observe are Ross & Fischer premium notes, with 3318 direct.

I am going to insist on Ross taking up the premium notes at maturity if they are not promptly paid, as he has other connections to raise the money and should relieve us of all he can knowing the situation. The \$3318 note is a consolidation of several on which interest and \$700.00 was paid on principal today and I can't say it will be paid at maturity. Ellis did this while I was out and I don't know if they agreed to clean up at maturity or not. We have no financial statement, but Mr. Rutter likely knows pretty closely and personally. I'd say they are better than Jaynes & Wardell. We want you of course to charge them up at maturities—Joke—we might have a balance by that time. I am just trying this out and see what you think of it.

You have some of Coburn stuff and statement. Ellis says this note will absolutely be paid at maturity out of his commissions on apples which surely will be in by that time. I have been over to Coburn's place. This is not bad stuff and he really is in a good conversative business and had margin of liquid capital in business. Not a gambler. Has had lots of experience in the line and has always been more or less successful altho too conservative to ever make a killing.

We will know in a day or two if the sale matter goes thru. They are going to get together tomorrow P. M. S. B. will leave for Spokane tomorrow night unless they ask that he stay altho he has given Ellis power to close deal.

Yours very truly,
(Signed) W. F. BUCKHOLTZ.

Our OD with you increased about 1000 at this end to-day, not counting any of my notes charged up as yet.

January 8, 1921.

Mr. W. F. Buckholtz,
c/o Central Bank & Trust Co.,
Yakima, Washington.

Dear Buck:

The Executive Committee talked over the \$11-000.00 note of the Franc Investment Company this morning, but were not favorably inclined towards taking it. They feel that you have other paper down there which is more liquid, and which comes nearer measuring up to our standards.

We have great confidence in your ability to pick out the kind of notes we want, and will ask that you work along those lines instead of asking us to take the Franc note. I did my darndest to get it over for you, but the powers that be could not see me "for dust."

Referring to my letter in regard to liberty bond notes, it may appear to you that Mr. Barghoorn cannot borrow \$22,000.00 from the bank there, and I guess in the last analysis that is right, but we talked the matter over with the Bank Examiner, and he told us to go ahead and handle it that way, namely: giving the bank there two notes, one for \$20,000.00, and one for \$2,000.00. They to discount the large one thru us, and keep the other one in their pouch; the large one to be secured by liberty bonds, aggregating \$22,000.00.

Nothing new on the horizon to-day.

The account of the Central Bank & Trust Company is overdrawn to-night \$7,434.79. Of course, we want to get this covered at the earliest possible moment. [110]

After writing you last night, I found your pencil memorandum on the makers of the various notes, and we are even better suited with the notes after seeing that than we were by merely looking at the statements.

Sincerely,

W. T. TRIPLETT,

Secretary.

W.

January 8, 1921.

Mr. W. F. Buckholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

On looking over our records I notice that a lot of apple drafts for which we have given the Central Bank & Trust Company credit are unpaid, and that in a number of cases more than two months have elapsed.

I wish you would see the makers of these drafts and ask them to give you checks for the amount so that we may clear them from our records, and enter them for collection. I do not expect your bank to put up the money, because I can understand conditions there at this time, but I do think that the people who drew the drafts should "come through."

In this connection, I wish you would instruct the tellers there not to accept any more drafts drawn payable upon arrival of car, except for collection. These arrival drafts are the bane of our existence, and the Bank Examiner is making it rather warm for us on account of the delay in collection. We had a notice to-day that one draft for \$1,141.35 which has been outstanding for some time is unpaid, and that the bank is unable to get any satisfaction out of it. This is being charged back to your account, and I think you had better do likewise with your depositor. He should sell the apples or make some arrangement whereby the draft

can be taken up without any further delay.

Sincerely,

W. T. TRIPLETT,

Secretary

R.

January 9, 1921.

R. L. Rutter, President,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Mr. Rutter:

As already advised, we all feel that the withdrawals have terminated, and I am more confident to-day than ever that we can get by and liquidate our indebtedness within 90 days, provided of course that the products held here will sell at all at reasonable figures. It is not so much a matter of holding for better markets but a matter of light demand temporarily. We of course all hope to make the sale and Mr. Ellis is firmly convinced it will go thru, but not depending on that and the benefits to be derived immediately, we face the task of liquidation to the limit or bringing on as much pressure as it would be good policy to do without creating a feeling of uneasiness among depositors, whose ears might hear the talk of disgruntled borrowers.

[111]

What I want if possible is for you to use your influence towards keeping the examiners away from here for say 30 days. I saw McBride in town one night and expected him in here that following day, but he didn't appear and I think he went out for Sunday. We are getting along fairly comfort-

ably; needless to say, we are busy—busy is no name for it. It would greatly inconvenience us at this time, and would delay such collection progress as we may be able to make. Then too, customers will see them at work in here and that gives another possibility of starting withdrawals, which we don't like at all. As for myself. No one has gotten curious,—I am a new man working in here in Van's place, who just left the first.

You will see my argument. The examiners would do the situation no good whatever and it has possibilities of resulting in disaster. I will greatly appreciate any influence you may have with the department.

Sincerely yours,
(Signed) W. F. BUCKHOLTZ,

Jan. 9, 1921.

W. T. Triplett, Secy.,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Trip:

Subject: Apple drafts.

I have your letter of yesterday advising that you are charging back a draft of \$1,141.35 which was drawn 10-25-20. This was drawn by E. S. Small on H. L. Tonnes Co. Detroit, *Minnesota*. That all right. I will get Small in here to-morrow. Tonnes wrote Small that the apples were fine. He has them unloaded and wants more. It seems Tonnes put up bond to RR. Co. to get unloaded. He wrote Small that he would have absolutely nothing to do with the First Natl. who hold the

draft and asked Small to send his drafts to the Detroit State Bank and he would pay them. We wrote the First Natl., to turn over collection to Detroit State but it seems they won't do it; this might do it, but to make sure, I will have Small draw a sight draft on Tonnes, which we will mail direct to the Detroit State Bank for collection with instructions to wire results and if paid we will wire First National to surrender B/L. We should get this one cleaned up within six days and it cuts down the "On Arrival" stuff to \$5500. If you can possibly carry this a week or ten days longer, I sure will appreciate it, but on the other hand if you get this loan matter fixed so as to give us a balance, it won't be so bad to charge us and you do what is best for both ends. You understand it will force loans on our books to that extent until returns are received. The shippers have no money on hand altho they are waiting for returns on a few items sent for collection. When the S. & E. and other banks stopt handling these on arrival drafts, it forced the shippers to check out their balances on accounts they had to pay and not getting credit on any more run them out of cash. Then apple shipments stopt, until demands for late apples comes on. There you have the situation.

On the December float which is now less than \$15,000, with likely some credits since, I am not alarmed or worried over. These as you know are at sight and payments have been good. Some of this hasn't had time as yet. You might mention to Mr. Rutter that your risk on the apple drafts

vs. United States Steel Products Company. 151

in transit is not bad, not nearly as bad as it might be.

Keep writing me. I like to hear from headquarters.

Very truly yours,

(Signed) W. F. BUCHHOLTZ.

P. S.—We have already stopt giving credit for on arrival drafts. [112]

January 10, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Your account has been charged \$329.89 to cover the discount on the notes aggregating \$39,199.18 which we took for your account a few days ago. Enclosed is a memorandum showing the details.

Sincerely,

W. T. TRIPLETT,

Secretary.

R.

Enc.

1-10-21.

Mr. Triplett:

I couldn't find my copy of the reports on the notes I sent you as collateral anywhere in the bank this morning and that possibly I had enclosed both copies. Will you see and if so return one copy at once?

It might have been picked up by someone and carried away or the girls may have destroyed it.

I should hate to think that someone on the outside might have gotten it and it bothers me.

The bunch of employees here don't amount to much outside of Lemon the assistant cashier or to be, and the old maid who keeps the savings books and window. I am very much disappointed in Elting. All he thinks about is getting through the day and getting out. He takes no interest in anything and during all these years has learned nothing in general. He is paying teller and on quiet days has time to do such work as reconciling accounts or other details but he don't know the first thing about starting on it. He is married and lives beyond his means, his account is overdrawn over \$100.00 and he doesn't seem to be able to catch up and get it covered. I always thought he was good material but it is a case of lack of pep or ambition; doesn't even know enuf to keep his mouth shut on the outside.

Ellis allows Elting and Smith and the other teller to overdraw almost continuously; there are shortages of over \$1000 for the year unfound. Van is into the bank for about \$180 that we know of and in all there is such a lack of organization and efficiency that I get so disgusted that I would like to fire the whole gang out of here and get new people, all except Lemon and the old maid. Stuff lying around all over thru the night that should be locked up, bunches of uncanceled checks lying out and all such stuff as that. Two of the other four girls are good material and with a little strict discipline could be developed, but what else can you expect of

a ship without a captain. It would not be wise to make any changes just now of course and we will have to poke along but I see a way to get along with one less man and if it turns out that no sale is made and I am to remain here very long, I am going to relieve one employee or give him notice to get another job. Haven't decided on who it will be. In fact, if business doesn't pick up and deposits remain below \$500,000 we could weed out two of them if the others would spruce up a little. It's a sad sad story all around and we have to make the best of it. In my opinion, Mr. Barghoorn made a good buy when he took this over, but he didn't get the right man in here. It's too bad. The big borrowers didn't need to be taken on at all. The borrowers are not depositors. We have any number of little business accounts who bring in small deposits every day. Besides that we have a lot of working people and small farmers. The Japs are mighty thrifty and successful and good depositors and there was no necessity to loan to them so much, altho I have confidence in all of the Jap loans. This bank instead of being in its present shape ought to be buying commercial paper from you and keep you busy supplying it. The force could be cut down somewhat and the institution would make very good profits even if deposits remained at \$500,000, or less, in less than two years it would earn enuf to charge off everything slow. The deposits would come [113] automatically. These little concerns aren't going to run away over to other banks to make their deposits and there is lots and lots of

this little stuff around here. If you could collect in what a dozen large borrowers owe you would be on easy street, and the whole situation is due to the past nine months management. I admit that it looked as tho deposits would go over a million but that didn't justify taking on all these big borrowers. The money wouldn't burn up and could just as easily all be invested in commercial paper instead, but there's no use crying about spilt milk; there is lots of it spilt and we have to mop it up the best we can.

I tried to call you to-night but couldn't get you. Nothing in particular, only I was anxious to know what had been done on the liberty bond matter and substitution of notes as collateral; also to give you the news of our raise in deposits to-day of \$13,000.00 with \$9000.00 in clearings for morning, but Bargy will be here in the morning and he will have something to tell me. Say S. B. is a prince. You did not begin to do him justice when you were talking to me. I have just begun to get acquainted with him.

(Signed) W. F. BUCHHOLTZ.

January 10, 1921.

W. T. Triplett, Sec.,
Spokane & Eastern Trust Co.,
Spokane, Washington.

Dear Sir:

To assist Mr. Blake in checking up collateral the following is now in my possession as agent for the Spokane & Eastern Trust Company:

On collateral note of J. J. Blood \$450.00, par value Liberty Bonds various issues.

On the collateral note of O. A. Clark I have a real estate contract signed by Geo. Cry with an unpaid balance of \$1110.00, total purchase price of the property being \$4000.00.

From Ira Cardiff collateral note I hold certificate of stock, 87½ shares Washington Dehydrated Fruit Company of \$8750.00. This certificate was not endorsed by Mr. Cardiff nor have we hypo and the next time that I can get in touch with Mr. Cardiff, it will be fixed up.

On the J. E. Knight collateral note I hold Pacific Dearborn Co. warehouse receipts on the two Clydesdale Trucks, together with insurance policy for \$5715.00, loss payable to Central Bank & Trust Company.

On the Shields-Livengood rediscounted note of \$2500.00, I hold their own warehouse receipt on a National Sextet Touring Car, in their Seattle warehouse, wholesale cost \$4200.00; copy of the receipt, which is in reality a trust receipt, is enclosed. Mr. Ellis says that there is no doubt but what this car is covered by insurance, but the policy is not in our possession. I will try to get this from the manager here as early as possible.

Enclosed is hypo signed by Central Bank & Trust Co., in connection with our note to be secured by customers notes; I neglected to enclose it when I sent the notes.

Yours truly,

(Signed) W. F. BUCHHOLTZ.

January 10, 1921.

W. T. Triplett, Sec.,
 Spokane & Eastern Trust Co.,
 Spokane, Washington.

Dear Sir:

Please send me the following notes, sent you in the batch of \$40,890.21, to be held as collateral; after your collateral department has made his records:

B. L. Blood	\$ 450.00
Farmers Produce Co.	2861.50
P. C. Foster	200.00
Jose E. Frisque	300.00
R. A. Gray	1000.00
H. Z. Honda	3000.00
Shields-Livengood Motor Co. ...	2500.00
N. D. Warwick	1654.49
Conrad Weiss	1486.39
Wapato Construction Co.	2500.00

I would like the original notes here for collection in case the borrowers should happen in.

Thanking you, I remain,

Yours very truly,

W. F. BUCHHOLTZ,

(Signed) W. F. BUCHHOLTZ.

B/H.

1-10-21.

W. T. Triplett, Secy.,
 Spokane & Eastern Trust Co.,
 Spokane, Wash.

Dear Trip:

We had a nice day to-day with a gain of \$13,000 in deposits which includes a cashiers check of

\$5000 which will be in in about a week. Our remittance to Spokane totaled \$17,907 of which \$3169 is sight apple drafts, balance regular bank checks.

Collected only a little small stuff which didn't amount to anything and Ellis took E. S. Small's note temporarily for \$5250 to take up some old charged back apple drafts which have been laying around here for some time and then credited back and carried as cash items for another 10 days or so. It is hoped that we will get some credits on some of the drafts and others he has to arrange to re-sell. I don't think Small could get the money elsewhere, altho Ellis didn't go into that with him. This bank has carried him and he does all his business here. Of late his balances haven't been steady altho he is still selling stuff occasionally and now and then makes a good deposit. Has lots of fruit and money due him on shipments tied up and when it all gets in Ellis thinks he can easily clean up here.

The S. & E. account hasn't been reconciled for December and I haven't had time to get at it, but if nobody gets to it to-morrow I am going to try to do it myself. We don't know how we stand closely. We should have a credit balance without the loan for a little bit anyway. As stated, we got Small to give us sight draft on that Tonnes car which we sent direct and charged to sundry banks, credited S. & E.

I am not sending any notes to-night, and in fact am going to quit early for a change. I am won-

dering what you thot about the notes I sent, but will hear from you to-morrow.

Sincerely yours,

(Signed) W. F. BUCHHOLTZ. [115]

January 11, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

I am enclosing a list of the fruit drafts outstanding. You will notice that some of them are a hundred years old, more or less. They are the bane of our existence, and while Ellis and some others may blame us for not taking them, there was absolutely no way under the sun we could use them, and we are sorry we did not clamp down the lid sooner than we did. Four or five of those should be gotten out of the way without delay, and I am going to ask you to do a little work looking toward that end.

If the Associated Fruit Company does not want to pay its drafts, then it is up to the people at that end of the line to take them up and handle for collection. Friend Bank Examiner, who has been with us for about a week, certainly is laying on us hard for permitting you to let them stand out so long.

Sincerely,

W. T. TRIPLETT,

Secretary.

R.

1-11-21.

W. T. Triplett, Sec'y,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Trip:

Kindly charge our account with the L. W. Adams \$400.00 rediscount reduced and renewed for \$350—30 days—history enclosed.

I am enclosing the new \$350.00 note for rediscount again, together with new note of C. A. Rhoades for \$900.00, for which if agreeable kindly credit our account. New statement on Rhodes enclosed.

As per your letter of the 10th, we are crediting your *your* account with \$329.89 to cover discounts on the \$39,199.18 batch. Our remittance to you to-day again was good and taking in consideration the float of our drafts, we should have a credit balance. Lemon and Smith are working on the reconciliation to-day and we hope to find out how we stand by to-morrow.

Enclosed is statement 1—1—21 of G. E. Friesen whose note you hold as rediscount for \$2000.00 the total amount he owes this bank at this time. See information attached.

Yours sincerely,
(Signed) W. F. BUCHHOLTZ.

P. S.—Mr. Barghoorn arrived this P. M. and tells me he signed the \$20,000 liberty bond note and we are making the corresponding entry. I have as yet no answer on the 40 odd thousand collateral

notes sent you, and whether you will see fit to put thru a credit immediately.

1-11-21.

J. L. Campbell, Comptroller,
S. & E. Tr. Co., Spokane, Wn.

Dear Mr. Campbell:

I believe the S. & E. is relieved of my salary from the day I left and you [116] likely have a small credit due on the 15th for the first few days of January and whatever it amounts to. Wish you would credit my check account on that day and mail slip of it to Mrs. W. F. Buckholtz at E. 20 5th Ave. Spokane in order that friend wife may know the amount.

Hoping that everything is progressing to your satisfaction.

Sincerely yours,

(Signed) W. F. BUCHHOLTZ.

P. S.—We have lots of work and things to think about.

1-11-21.

Dear Mr. Triplett:

I happened to run on to your letter of 1—3—21 asking for statements on C. H. Ashman and Richard Frederickson. Neither of these people have been in and the following is the best I can give you at present.

C. H. Ashman is a tenant of S. S. Busch on one of his irrigated tracts. The note is also signed by Busch which adds strength. Ashman has a small equity in a piece of land, which together with mis-

cellaneous chattels likely would show a net worth of \$3000.00. They have on this place about \$2000.00 worth of clover seed out of which the note is to be paid. The clover seed market is dull at present as there is little demand for it at this time of the year. We don't know if insured or not, but as soon as I can get one of them in, will send you further details.

Richard Frederickson owes this bank \$2333.40 all of which is rediscounted with you and due 2—6—21. He has an equity in a place of about \$3000.00. This loan is secured by cha. mtg. on some equipment, together with his 1920 crop which consists of 100 tons of hay and 40 tons of spuds. Yesterday some hay was loaded out at \$17. A dealer told me some went out at \$18 last week. The lowest sold to my knowledge was \$14. Figuring the hay at \$14 and the spuds at \$20.00—(I don't know or haven't heard what spuds might sell for at this time) there would be hardly enuf to clean up, but there are good chances of getting better than \$14.00 on the hay. I am writing Frederickson to-day to come in here and we will see what we can do about selling the hay immediately, and will advise you of any developments.

Sincerely yours,
(Signed) W. F. BUCHHOLTZ.

January 12, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Thank you for your letter of January 10 enclosing history sheet on H. C. Davis. The old boy is one of those hardboiled fellows who believes that the only province of a bank is to lend money; that as long as a man is good there is no use asking him to pay up; and that deposits in connection with a loan are out of the question, for a man would not borrow if he had any money to keep on deposit.

He is largely responsible for getting a bunch of loans in the pouch signed by persons who carry no balances with the bank. I think he is a big drawback, but on the other hand you need him in this crisis and it would not be well to press him too hard. I think you ought to make him understand he is not to be a continuous borrower, but is to pay up whenever he sells any stock or any [117] produce, and borrow at other seasons.

He is just as you described him, a first class politician with a lot of influence, and particularly in the livestock lines.

Sincerely,

W. T. TRIPLETT,

Secretary.

R.

January 12, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

You have the C. A. Rhoades matter sized up exactly right. Mr. Rutter thinks that you handled it in fine shape. He is not the kind of a man to press for payment. He owes you such a small amount in comparison with what he received for his products, that you would be foolish to go out and force collection.

On the other hand, if his produce was only worth \$5,000 and he owed that amount you should go out and put on whatever pressure is needed to secure liquidation. The kind of people you should get after are those who are continuous borrowers, and who will have nothing left to deposit after their loans are paid. The chances are they will be applicants for new money within a very short time, and the only way to circumvent their requests is to ask them to pay up and go elsewhere.

Regarding Ashman and Frederickson—I think you had better watch them carefully and see that you get returns if the crop is sold. Otherwise, they will be inclined to pay other people, use the money for expenses, and do everything else other than pay the bank.

It is entirely satisfactory to us to handle the L. W. Adams renewal and C. A. Rhoades note. Your account has been credited \$1,237.70 to cover

the new notes, and charged \$399.77 to retire the old note of Adams.

We are pleased to learn that things have quieted down and that deposits are running along in the regular way. I am not so sure that the withdrawals are all the result of uneasiness on the part of the depositors. Nearly all Spokane banks have had some decrease in deposits since the first of the year, due to the fact that a good many people who have savings deposits have bought bonds or moved away, and they were just leaving the money here until interest was credited up. Our own deposits have shrunk a whole lot since you left, and we are congratulating ourselves that they have not slipped even more.

Sincerely,

W. T. TRIPLETT,

Secretary.

R.

1-12-21.

Mr. Triplett:

Deposits to-day down about \$3000.00. Regular run of stuff. Nothing in the way of withdrawals of accounts that amounts to anything. Just a day when nothing large comes in.

Cash collections of notes net, only \$600.00. [118]

Everybody appears to be calm, business quiet and nothing exciting occurred: Few cars of hay being loaded out every day but demand weak. Geo. Cyr made an appointment to see me to-morrow. He is a borrower on haps, you have him. In the mean-

time he is going to feel around on the market a little. Will advise you results of our conference tomorrow.

W. F. BUCHHOLTZ.

(Signed) W. F. B.

P. S. —How is Wienss getting along? Selling any wheat? Is the Omah situation doing anything?

1-12-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Trip:

Thanks for informing me as to the telephone rates after midnight. I didn't know this and it may be of considerable use to me.

If you should be having a night session at the bank or be there after midnight and have anything of importance to tell me about, you might call me Room 553 Commercial Hotel and I can talk where it is quiet and not a lot of people around to hear me. It is usually about 12:15 before I get to my room—I don't mean that I am usually in somebody else's room until then. I don't want you to misconstrue my meaning, that's all, as I am usually down at the bank until 11:45 and then mail my stuff on the night train.

Sincerely yours,
(Signed) W. F. BUCHHOLTZ.

1-13-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Trip:

In regard to financial statement from Ross & Fischer: Ross just got back from Ellensburg and I saw him in the lobby of the Commercial this evening.

He says they are closing up their last year's business and in a few days will have the desired statement and I will forward you a copy when I get, *keeping after them* in the meantime.

Ross also says they expect a check of \$5000.00 in a few days and it is quite possible that they will take up the note at that time, realizing the situation here. I also had a talk with him about taking up past due premium notes and made favorable progress on that. Enclosed is copy of J. D. Bridges statement of to-day. You hold his for \$200.00 end R. & F.

Sincerely yours,
(Signed) W. F. BUCHHOLTZ.

1-13-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Mr. Triplett:

Enclosed is renewal of Geo. L. Cyr hop loan for \$5250.00 for 60 days, to [119] replace two notes rediscounted with you aggregating \$5200.00.

The enclosed history sheet and new statement tell the story. This might be prepaid as Cyr is anxious to sell as early as possible but I made it 60 days as it might take that long for a market to develop.

As per our conversation, I could have split this up, making one note absolutely secured with large margin and the other not, but you know how it is with us at this time. It's like an old girl at 60—what is the use?

Sincerely yours,

(Signed) W. F. BUCHHOLTZ.

P. S.—Received credit memo for L. W. Adams renewal and C. A. Rhodes \$900, for which thanks. I am glad my action on these met with approval. One of the Cyr notes was here for collection; the other has not arrived. Please cancel and send it if it's not already on the way.

January 14, 1921.

Mr. F. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Your letter of January 12 in regard to the Small drafts is received, and we are not altogether satisfied with the situation. It seems to us that in view of the length of time these drafts have been outstanding, he ought to sell the apples on the open market if the Associated Fruit Company is not going to take them up, and let us clean the slate.

In lieu of that it will be satisfactory to us if you can scrape up enough rediscounts to take the place

of these drafts and let us enter them for collection. We don't want them outstanding much longer. We all feel that there is going to be a good sized loss on Small, and the sooner we get things in shape the better. The apple market, like everything else is slumping, and the longer you wait the greater the loss will be. In our experience the man who gets in first and secures his money comes out on top, and the man who dilly-dallys along comes out at the small end of the horn.

That has been the trouble over there in Yakima. Instead of going after their borrowers last September as per our suggestion, they were too much inclined to listen to the borrowers' tale of woe and his optimistic views as to higher prices, instead of using good judgment.

Sincerely,
W. T. TRIPLETT,
Secretary.

R.

January 14, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Whose receipt does the County Treasurer hold for the Liberty Bonds which were forwarded for conversion? If it is issued by the government or you have a form of receipt from the Federal Reserve bank for it, we see no reason why we should not trade you \$10,000 worth of Liberty Bonds for your receipt, and hold the latter until returns are

received, provided the bank will give us a written agreement to turn the bonds over to us as soon as they arrive.

Sincerely,
W. T. TRIPLETT,
Secretary. [120]

R.

January 14, 1921.

Mr. W. F. Buchholtz,
Care Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

To-morrow your account will be credited \$40, being your salary for the first six days of January and a duplicate of the deposit will be sent to Mrs. Buchholtz, as requested.

We have had the examiners with us ever since you left, you no doubt know, and we seem to have enough work ourselves to keep us busy. I haven't heard of anyone looking around for something to do for some few days.

Sincerely,
J. L. CAMPBELL,
Comptroller.

JLC: MS.

1-14-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Washington.

Dear Mr. Triplett:

Nothing new to report to-day in particular. We had a regular day although our deposits dropt

about \$8000.00. This is not a large fluctuation for the volume we handle, but the trouble is there are more downs and ups. Didn't collect anything to speak of to-day although got some statements and made a few renewals.

Woodcock will likely pay us \$1500.00 to-morrow or Monday, which he said he would. This however, is full payment of a note held in Seattle. You can put considerable confidence in the paper with his name on it, of which you have \$12,000. His turn over of cash is good and he deposits bunches of checks which would make you think he was in some business in town. He did not put all his assets in his statement and he is believed to be worth a half a million and not all his assets are of a slow nature either; in fact, we could get every cent on the paper he is on as he can get it elsewhere anytime, but you see he is not only on the board here but is one of the substantial fellows in the bunch of prospective purchasers. In spite of this, you can be reasonable sure to get some money at maturity from him; in fact Ellis says he will pay all of it.

You mentioned the Grangers Whse. Co. \$6000.00. I agree with you that the load is too heavy but likely you were under the impression that this business is conducted in Granger which is not the case. It is in the same block that the bank is, and consists of general mdse. and produce business, owned and operated by a bunch of farmers.

Keep writing me. It's great to hear from home. It strengthens my morale and it is indeed a pleas-

ure to pause for a moment thru the day and open and read them. I am going to use you all I can in this work, and knowing that you have plenty of other matters to look after, I appreciate the time you give me.

Sincerely yours,
(Signed) W. F. BUCHHOLTZ. [121]

1-14-21.

J. L. Campbell, Comptroller,
Spokane & Eastern Trust Co.,
Spokane, Wn.

Dear Mr. Campbell:

Please send us a statement of our account with you with vouchers up to date, and from now on have them sent twice a month, on the 15th and last.

Two of the boys have been working on our reconciliation of account for several days and as yet not reached a balance. We hope to get this completed soon and will send you return sheet. Unfortunately a great bunch of stuff consisting of charged-back apple drafts, costs on these, wires, collection and exchange charges, etc., etc., have run on without attention for so long that it nearly necessitates the employment of an expert to ferret out all the differences.

Thanking you, and with personal regards,

Sincerely yours,
(Signed) W. F. BUCHHOLTZ.

P. S.—Since writing the above I have watched the boys work on it for a little and I see they have a lot of December stuff to check up as yet. Until

further notice, I wish you would have someone enclose a slip of our balance each night until we get it straight. I can then estimate outstanding drafts and other large items and get some idea as to how we stand from day to day.

January 15, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Referring to your letter of January 13—I am not altogether sanguine about the Rhoades matter. The price of apples is something yet to be determined. My thought in writing you was that if the value of the apples was very little more than the loan, there was not much use in taking chances and mincing words; but if the price of the apples exceeded the loan several times over, as it apparently did, you would have been foolish to go after the loan.

The trouble with apple dealers, hop dealers, and any other dealers that we know anything about, is that they are hoping against hope that the price is going to increase or continue where it is. They are merely kidding themselves. [122] The price of all products is on the down grade. After the Civil War values declined steadily for thirty years. You know what happened to what this year. The apple men have been fortunate so far in that the price has not slumped proportionately as much as other products, but our friends in the Wenatchee country tell us the market has quieted down

to a whisper, and that it is next to impossible to get a bid on any amount of apples. This is the beginning of the slump. A banker should advise his customers to sell their products and get out from under the load.

This goes for Cyr as well as anyone else, although in Cyr's case you want to get all you can out of his crop. At the same time, you don't want to let the market slide out from under him. We have renewed the Cyr note, but shall expect it paid at the next maturity.

I think you can understand our position in the matter, and while it may appear a bit arbitrary to you, these things will hang on for ages if somebody does not put on the pressure that is necessary to get results. The trouble with all of us is (and this goes for me as well as anyone else) when we get among the farmers and see the actual produce, we are inclined to take their viewpoint because we can see the stuff and know something of the value. On the other hand, conditions are entirely different this year than ever before. We are on a constantly declining market from which there is little prospect or hope of recovery for some time. The tight money market alone would tend to hold prices down if no other feature entered into it. There isn't enough idle money in the world to buy any great amount of products and all purchases are on a week to week or hand to mouth basis. The butcher, the baker, the candlestick maker can't see over a week or ten days in advance. Consequently they don't lay in the supply of goods they formerly

did and are buying in driblets. You know what that means. When any of your borrowers begin to talk about holding for higher prices it would be just as well to turn a deaf ear to their appeals.

As regards H. D. Smith, it is all right for him to talk about relieving you of his loans in case you get uneasy, but unless conditions in Yakima are entirely different from what they are any place else, he will not find it so easy to make good on his promise. Apparently he is sound and in good shape, but when a man talks about going across the street and borrowing money to pay another bank he does not know what he is talking about in these days. All the banks in Spokane have had attractive business put up to them if they would lend money to pay off some other bank, but when it came to a show down they did not get the money.

We thank you very much for the \$2,500 he paid and for letting Herb continue to carry his part of the load.

Sincerely,
W. T. TRIPLETT,
Secretary.

R.
Enc.

January 15, 1921.

Mr. W. F. Buchholtz,
Care Central Bank & Trust Company,
Yakima, Washington.

My Dear Buck:

Enclosed you will find statement of account of the Central Bank & Trust Company, as of the close

of business January 14, and as requested, we have placed your name on our mailing list and hereafter you will receive a statement of your account on the fifteenth as well as on the thirty-first. I have also asked Miss Cannon to furnish me daily with a memorandum of your balance and I will endeavor to see that you get it all in due course.

You certainly ran up against a mess all right but after you once get it straightened out and know where you are, it won't be so bad. The party who [123] was in charge of the reconciling end of it I am sure cannot have given it much time or else it would never have been in such shape.

Sincerely,
J. L. CAMPBELL,
Comptroller. ;

JLC: MS.

1-15-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Mr. Triplett:

I note that Chief Snider is still marking the collection slips on rediscounts sent me for collection as follows:

“Will charge your account at maturity.”

You advised me that this would not be done, and I hope it will not be. I am very anxious to keep our account intact and if rediscounts are charged up in this way, it just simply can't be done as it requires time to get these items renewed or collected.

If O. K. be sure and see that Chief doesn't do it.

Yours very truly,

Sincerely,

W. F. BUCHHOLTZ.

(Signed) W. F. BUCHHOLTZ.

P. S.—Mr. Barghoorn left for Spokane this P. M. and he can give you late information. WFB.

January 17, 1921.

Mr. W. F. Buchholtz,

Central Bank & Trust Company,

Yakima, Washington.

Dear Buck:

Enclosed is a copy of our entry in connection with the H. D. Smith payment of \$2,500.

I do not know whether you adjusted the interest or not, but this will give you an idea as to what was done.

Sincerely,

W. T. TRIPLETT,

Secretary.

R.

Enc.

1-17-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Mr. Triplett:

Collateral notes only.

Enclosed find renewals as follows: (Original notes.)

B. L. Blood \$400.00, secured by U. S. bonds par

\$450.00; note due in 30 days with authority to sell at maturity unless taken up by them. [124]

H. Z. Honda \$3000.00. Chattel mortgage hotel furnishings.

The P. C. Foster \$200.00 note held by you as collateral was collected in cash today. I have not made entry to give you this and with the \$50.00 reduction on Blood cuts your total collateral down to \$29,966.72 as it stands, but I have a couple more entries to make on collateral notes, people in after hours and tomorrow will send you something more to cover. It is necessary that we substitute other paper for collateral notes collected at present which I trust is agreeable.

On the above B. L. Blood note, I am retaining \$450.00 in liberty bonds for you. Blood begged so hard and assured me that he had money enuf coming to pay this note in full and keep his bonds, that I allowed him another 30 days. If he doesn't come thru by maturity I will forward the bonds to you for sale. He expects to get some money in about ten days, but I think it's bunk and if he doesn't, it is understood that we sell the bonds without further negotiations.

Yours truly,

W. F. BUCHHOLTZ,

(Signed) W. F. BUCHHOLTZ.

P. S.—Honda couldn't pay anything more than interest this time but assured me that by next maturity would make substantial payment. It is possible that he is helping some of his Jap friends and I am going to watch his account.

1-17-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wn.

In General.

Dear Mr. Triplett:

Thank you for your general letter of the 15th.

About that fellow Rhodes, I agree with you. I'd sell enuf now to clean up even tho I had \$10,000.00 worth of apples and owed only \$900.00, but with Rhodes it is different than many others. His stuff is 75% extra fancy, in good shape and size. He told me he could get \$2.00 but on account of having such good stuff felt he could afford to wait a little, especially since his indebtedness was light. But, you take some of the other fellows who have 5 tier apples and C grades and poorer, they haven't any offer at all for any amount. These are the birds that I think should take what they can get as early as possible; in fact every borrower whose ratio does not show a large margin and owes considerable, should not wait one moment.

You take the hop fellows. Right now there is practically no bid for hops. Such brokers as have connections for handling are on the lookout for hard-up hop growers and want to buy at 25¢ and speculate, but from what I can learn from a number of sources, it is reasonable to expect a market in 30 to 60 days. The First National has some hop paper; they don't expect anything on it until March and by the way, they are a long ways from being on easy street themselves with steadily de-

creasing deposits, altho they hope to get a good boost in March. I haven't bumped into many fellows as yet who are standing us off on the idea of holding for better markets, but in many cases there is hardly a market of any kind on some things. It is true that a little stuff of all kinds is being shipt out right along, but the volume is sickening, and we are all hoping that the apples will clear out during the next 60 days. Altho I expect to keep pounding along getting what I can, I don't expect to do any great volume of liquidating until February or March. I am figuring on from \$100,000 to \$150,000 out of hops and apples during the next 90 days. If these two items don't move, we are going to have some mighty hard sledding and it won't be this bank alone.

With reference to H. D. Smith with whom I am getting pretty well acquainted, as [125] he lives at the hotel, he did not say how he would pay if we called him. I think he would sell. You know he is a buyer for Cohen & Co. of Chicago, has some capital of his own, and this business is on his own account, and I am inclined to think he knows where he can sell his stuff and what he can get. Altho, I admit this is speculation, he is not the rank kind that Eddie Small is, and doesn't load up with more than his capital will comfortably handle. He told me that he could sell at 20¢ profit over all costs on what he has in storage, but that it was too early to sell the quality of stuff he held. He says the outlook on small and inferior stuff is not encouraging, but that he was in close touch with the

Chicago people from whom he gets night letters every day and that he wasn't losing any sleep as far as his personal business was concerned. If his account didn't amount to anything, I'd sure put on the pressure but he always has a balance which usually commensurates with his borrowings, and if any items come back the money is there to cover, and in fact I might add that it is a pleasure to transact business with him, and I am not doubting that by the end of 60 days will see him cleaned up, which is a lot more than I can say of some others.

I don't want you to feel that I am drifting off into an alley of that which might not do this situation the most good and I agree with you to the letter on the several subjects touched on, but what did the wheat fellows do when there was absolutely no bid whatever for a short period. There was nothing to do but wait until buyers did come back on the market. Moss of Fairfield told me that for a week or so they couldn't sell wheat for 50¢ a bushel; that there was no bid at all and they had to wait. The situations of some commodities is just that. In fact I have met with little stubborn resistance on this argument on the part of growers. If they have any stuff to sell, they will sell even tho the price is down, but they want cash. The buyers and brokers are loaded to the brim with stuff; the banks are all holding them down and until the crest runs off a little, cash bids will be weak and few for the commodities. Many of the growers are pestering the life out of fruit dealers trying to get money

due them on stuff already sold. We have some of these growers who have accounts receivable. Many of the dealers are responsible and will pay when the peak begins to simmer down, but if they can't borrow from the banks they have to wait for returns and there is nothing to do but tell the growers to go to their banks and tell them these conditions, and the banks can do nothing but carry them along.

We are still getting in a little bit of money each day on our loans, but it is sickening the way things drag on.

Our statement on the 14th showed about \$6000 balance, and I note that you charged the Barney note of \$3500 along with some others to our account. Our floating drafts were about \$12,000 on that day and altho our remittance to-day will help about \$8000 we will be in the red again unless it keeps up good. We gained \$14,000 in deposits to-day, \$6000.00 of which was in currency, which of course is refreshing, but for several days past it went the other way strong, our low water mark in deposits being \$440,000, Saturday, to-day, up to \$454,000.00 again. The deposit end of the business is all quite regular at present and it is reasonable to expect that they will at least stay above \$425,000.00 unless we can get more county funds which will likely be towards the end of February or first part of March. At that time, if we have the collateral, it is possible that we might get \$50,000.00 additional in county funds. If we should get something of a raise or temporary spurt by March 1st from the general run of business, together with

what liquidation may be made by that time, I hope we will have a little breathing spell for a few minutes from the reserve standpoint. Our actual cash reserve when you get down to the bottom of it has been running from 6 to 10%; in fact scarcely more than the cash on hand in the bank, as actual collected balances are usually an unknown animal around here usually offset by what our books show as overdraft with you, the balance of due from sundry banks consisting of uncredited apple drafts gone hay-wire. That E. S. Small business is enuf to drive a fellow to drink. By the way, I misinformed you as to his indebtedness here. He is on the books as a [126] borrower at this time of \$16,250 instead of \$20,250. The girl posted a note to his account in error. The *the* \$16,250 add overdraft of \$1900.00, stranded fruit drafts which will come back on us of \$5000.00 and you have a total of about \$23,000.00 Small actually has a bunch of stuff consigned East trying his best to sell it and take a loss on part, but to date hasn't gotten any money on it, and the come-backs of the apple drafts, wherever there is a chance, we are arranging to file R. R. claims in our name. Just how he will come out, we don't know at this time. Small was in this P. M. and wanted to go over stuff with me, but I had four borrowers waiting to see me then and he had to get back to his business. I had a real day's work to-day; from ten o'clock on I was taking statements and figuring with borrowers steadily, and when I got to the end of the bunch, I looked at the clock and it was quarter to four and

felt pangs of hunger as I eat a light breakfast, so went out and had a lunch; worked a couple of hours more and then went to the Commercial and had a good feed to the tune of \$1.65 and Tales of Hoffman.

Ellis did some work to-night which will help. He wrote up a large pile of letters on past dues, asking them to come in. I hope it brings results. It's quarter to 12 and I have to beat it and get my stuff in the mail. I promised Mr. Barghoorn I'd keep him advised as to how things were going. No time to-night and if you show him this it will give him some idea.

Sincerely yours,

W. F. BUCHHOLTZ.

(Signed) W. F. BUCHHOLTZ.

January 18, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Referring to your letter of January 15—we have instructed Mr. Snyder to make no charge against the Central Bank without authority from you. However, in some respects the system is all wrong.

You ought to arrange it so that there would be a certain amount of new paper coming in to take the place of the old paper as it matures, so that we would not be under the necessity of waiting for you to obtain renewals—something which is at times rather difficult.

Unless a system of that kind can be worked out, your humble servant and a lot of the other employees of the bank will be working overtime trying to get the past due notes in shape, and to keep away from the wrath of the Bank Examiner.

Sincerely,

W. T. TRIPLETT,

Secretary.

R.

1-18-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.
In General.

Dear Mr. Triplett:

Deposits held about even and collected in a little better than \$2000.00. Am scheming and figuring on how and what to send you as I know if we have any balance there, it represents floating drafts as our books show quite an overdraft, but will be sending you something before the week is up.

Well, it became necessary to have a confidential talk with Ellis to-night in an endeavor to ascertain his ideas and as to how seriously he took my presence and position. You understand things have gone pretty smooth between us for a while until to-day or this evening. It was like this: Mr. Barghoorn mentioned to us that the Wapato Construction Co. would get \$3000.00 in a day [127] or two; in fact I mentioned it in one of my letters. This didn't come promptly and altho I was on the lookout for it, I failed to notice that the deposit was made yesterday, the 17th. It was an under-

standing with the bank that when Wells got this payment, the bank was to get part of it; in fact the bulk of it. Wells agreed to that, and Mr. Barghoorn wanted us to see that we did get some of it. Ellis knew the deposit was made and saw Wells make it, so as soon as I discovered it to-day, I jumped him about it since Wells had already checked it down to \$2100.00 by close of business to-night and nothing on our notes. Ellis said Wells didn't say anything about his notes (both past due) but mentioned he would be in to see him to-night. This was before six. Right then, I plainly told Ellis that if Wells didn't show up to-night as agreed, I would charge his account with \$1500.00 or half of the deposit and endorse it on his note, advising him of it and informing him that we would not tolerate his overdrafts—his account was overdrawn before the \$3000.00 was deposited. Ellis didn't say much to that, but agreed that Wells was perfectly willing we should have a part of the \$3000.00. So far so good. Well to-night about 8 Wells sure enuf showed up. Wells being well acquainted in Tacoma, the subject drifted to the Scan. Am. Bank and the people in it and the causes, etc., which lasted about half an hour or so and then drifted into his work and the collection of what was due him. Finally it appeared Wells was about to go and thinking that nothing would be done, I mentioned that since he was here, why not get his notes in shape. Wells said good. He would rather do it now than tomorrow when he would be busy. I dug up the two notes 2500 and 4000, both past due and turned them

over to Ellis. By the time I got the notes, Wells had made out a check in blank for \$2000.00, which was lying on Ellis's desk, and I at once thought it was payment on notes. I didn't pay any more attention to the dealings and went about something else. When Wells had gone, I found that both notes were renewed just as they were with interest paid only. I inquired of Ellis how it was and what the \$2000.00 check was for. Well, the check was just to show his honesty and desire to protect the bank inasmuch as his balance would always be in our charge and if we saw fit, we could draw it any time; in fact kept his account as security if we wanted it. Naturally, I began to get warm under the collar and asked him to give me an explanation as to why he did this after Mr. Barghoorn had mentioned the matter, and I had emphatically told him a few hours before that we were going to get \$1500.00 of that \$3000.00. I would have said nothing had it been \$1000 at least. He hummed and hawed and said that Wells would have enough in 15 to 20 days to clean up the entire \$6500.00, and that he thought when I mentioned to get the notes in shape that it was agreeable to me to renew them and if it wasn't why didn't I speak up and talk to Wells. Of course I had to explain that in any case where he was already negotiating with a customer to the point of granting renewals that it was not my place to horn in and say no we won't do this or that, and when he already knew what the program was, it would be much more diplomatic for him to handle the customer and in the end, I didn't want to hu-

miliate him by riding over him in the presence of a customer; that that wouldn't do and I began to get warmer and plainly told him that I had been thinking that he and I could work together and that he wouldn't go ahead and do things without my knowing it or against my wishes; that in this case he didn't even tell me that Wells had made the deposit yesterday when he knew it and then in the end deliberately did the opposite of the policy and plans I had laid out to his knowledge and even at the request of Mr. Barghoorn. He came back with the statement that I shouldn't criticise; that there had been piles of criticism thrown at him, etc., and for me to cite one instance other than this that he had not followed out my ideas. I replied that I was not driving at anything else he had done, or had not done, but was talking about this deal to-night and what I wanted to know and get at was to ascertain whether or not he was going to take my plans and policies seriously or not, and if he wasn't I wanted to know it right away. He kept dodging and squirming around the issue and we weren't getting anywhere. Finally I asked him if Wells had argued that he absolutely needed every dollar of it to finish his job and that it would be impossible for him to spare any of it. (That is the funny part of it.) He said no, he didn't; in fact, he mentioned that he wasn't going to use a dollar more than he had to and expected to keep a balance of over \$1000.00 on hand until he got his estimate the 26th—which I know he won't do. Checks came in thick to-day [128] and he will write out a lot more to-morrow and the \$3000.00

will be scattered in no time. I failed to get the idea of leaving the \$2000.00 check which Ellis said he did voluntarily, but that it wasn't understood to go on his notes. Well, after jangling a while he said Wells was coming in again to-morrow and he would ask him to give him a check of \$1000.00 to apply on his notes and ask me if that would be satisfactory. I said "Ellis, if you have granted him renewals on all of it, would it be good policy to change your mind over night and the next day ask him to pay \$1000.00?" Well he thot he could get by with it smoothly and that anything was alright with Wells.

Now what do you know about such a case? I have him sized up as a banker who lets his borrowers manage their own credits. Of course Mr. Barghoorn's strict instructions to make no loans whatever has held him down and it is a mighty lucky thing that it came to that when it did. We have had enuf forced on to us since.

Knowing that it is easy to criticise and tear down a fellow when he's in a jackpot, I have tried to look at the man's good qualities and exaggerate the factor that markets went against him, together with shrinkages in deposits, when it wasn't expected, and all those things, but right now I am firmly convinced that he has no backbone or there is something radically wrong and the man not only uses poor judgment but is dangerous in a bank. That's pretty strong and someone might say that of me before I get thru with my banking career, but if it ever comes to that and several bankers in high

positions who have made a success will say that, including the banking department, I think I will admit that I am a failure in the line and if my presence is desired I will still stay and do all I can. With him it is different. He still thinks that he knows what he is doing and made the statement to me to-night that their condition is the result of circumstances over which they had no control and that he Ellis had done everything possible to better things and that he didn't think anyone else could have done more than he has done, and everything you bring up, he has an alibi for, and says the criticism is merely prejudice, etc.

I said "Ellis, you are all wrong. You have 10 borrowers owing you an aggregate of over \$100,000.00 right to-day and you don't need a single one of them." To that he replied that it was business of their local directors and stockholder and approved by the directors and that Millichamp had brot in the Wapato Const. Co. account and this and that. I replied to h--ll with your local directors and stockholders; instead of being a help to you, they are a bunch of heavy millstones, every last one of them. They are not bankers and don't see the situation and it's up to the cashier of a bank like this to tell them at the board meeting what is what and that you can't carry the loads they are shoving on to you, and I haven't seen one slight effort on the part of a single one of them to relieve you of what you are carrying for them. There is Millichamp \$13,000. Woodcock \$12,000. Ross & Fischer \$5000.00. Wapato Const. Co. \$6500.00 for almost a year—

brot in by Millichamp, who thinks he did something for the bank, and a lot of other heavy borrowers.

As far as Ellis is concerned, I have made up my mind that you and Mr. Rutter have him sized up about right. If anything your opinions are too good and you have too high a regard for his ability if anything.

To end our argument and conversation, we both agreed that it was desirable that he stay on the job for effect, and I added that I hoped strongly that the prospective purchasers would buy the institution and bring enuf deposits to take up all indebtedness and clean up with the S. & E. and stay out, and that as the new people had expressed a desire to have him remain with them, I wished him and the bank every possible success in the world, but in the meantime, while I was here, there was no sense in the bank paying my salary and heavy expense if he was going to pull any more stunts over me like this one; that I had lots of other work that I could do and didn't need this job as far as I was concerned, but that I had been sent here to help liquidate and that results were expected of me and I wouldn't stay without [129] his recognition and co-operation. I had ripped him up pretty severely, keeping in mind that we need him still but feeling that he has nothing in sight and Lord only knows how bad he wants to stay and make some people think he knows something. He finally came part way, appreciated that what argument we had had in the past had taken place when we were strictly

alone and the fact that I hadn't once jumped him in the presence of any of the help or customers and added that he would see that nothing of importance was done over my head again and was willing to work in harmony with me and tried his best to smooth things over and we parted in good spirits and I think I accomplished something thru our long argument. Whether he takes it seriously or not, I don't know. I wish someone would analyze this fellow for me. It's beyond me. He is different from any human being I have ever chanced to work with. I have made up my mind that I need to watch him closely each day, or the first thing I know, he will let another \$1000.00 get away.

Well, it's me for bed. I am merely writing you these things occasionally to put you in position to make recommendations and suggestions. You have had lots of training and experience in discipline while I have not; at least I have accomplished nothing in that line.

Sincerely yours,
(Signed) W. F. BUCHHOLTZ.

1-18-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Mr. Triplett:

I want to get you some notes in shape for rediscount to cover the O. D. just as fast as I can get the charged-up ones renewed or collected, and complete

information to cover them. This goes slow however. I have seen Barney on the \$3500 as yet.

Enclosed are two little ones as follows:

W. G. Linse \$300.00 due 3-18-21

Jos. E. Frisque \$200.00 due 4-17-21

the latter secured by U. S. Liberty bonds aggregating \$250.00 which are enclosed. Kindly have Mr. Blake attend to conversion of the bonds.

Both of these notes will be paid in cash at maturity; statements enclosed.

I wish I had about \$20,000.00 of stuff like this. Kindly credit if acceptable and advise details.

Yours very truly,

W. F. BUCHHOLTZ.

(Signed) W. F. BUCHHOLTZ.

Registered.

P. S.—Don't laugh. Every little helps, you know.

January 19, 1921.

Mr. W. F. Buchholtz,

Central Bank & Trust Company,

Yakima, Washington.

Dear Buck:

Prepare yourself for a shock. Day after tomorrow your account will be charged with the six Associated Fruit Company drafts which have been outstanding for so long. The enclosed telegram is the answer.

vs. United States Steel Products Company. 193

We are hoping you are fortunate in getting the old boy to dig up, but are [130] not entirely sanguine over the matter.

Sincerely,
W. T. TRIPLETT,
Vice-President.

R.

January 19th, 1921.

W. T. Triplett, Sec.,
Spokane & Eastern Trust Co.,
Spokane, Washington.

Dear Sir:

Enclosed is original note of E. F. Burrill for \$600.00, together with late financial statement, from which you will observe will not be collected until 1921 crops are realized. The note is secured by chattel mortgage held by this bank, covering all 1921 crops on ten acres of orchard and alfalfa, together with one Chevrolet touring car, two farm horses, two milk cows, wagon, plow, harrow, ditcher, two cultivators, and a disk.

History of the renewal is enclosed.

I am submitting this as *collateral* to make up several small payments collected during the past two days.

Very truly yours,
W. F. BUCHHOLTZ.
(Signed) W. F. BUCHHOLTZ.

B/H.

P. S.—It is necessary to give you some of this from time to time for collateral purposes.

1-19-21.

Mr. Triplett:

What did you do with the Franc Inv. Co. note of \$11,000.00. According to my records you still have it. Would suggest that you enter it for collection there at the same time holding it as security to overdrafts if any.

To confirm our records, kindly write us acknowledging receipt, or send collection receipt.

Yours very truly,

W. F. BUCHHOLTZ,

(Signed) W. F. B.

1-19-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wash.

COLLATERAL.

Dear Mr. Triplett:

I have taken out the Wapato Construction Co. note of \$2500.00 from the collateral to bills payable. In substitution thereof, I offer the following:

- B. L. Chaney 1000.00
Statement & History
- S. L. Allen 1984.20
Statement

You will observe the former is signed B. L. Chaney Livestock Co. and endorsed B. L. Chaney. The corporation is still in existence. Its only assets are the [131] 19 head of cattle, with the \$1000.00 note against them. Chaney is arranging to dissolve them as he and wife are the only stockholders and in reality considers the whole matter as

his personal, but had him sign in this way to cover the point.

I have hopes of getting something on the Chaney note by maturity as he wants to get it out of the way. On the Allen proposition, there is a wide margin for payment out of 1921 crop. Allen is perfectly agreeable to deal with and I will have the chattel cover his entire crop for 1921 and then altho I admit it is very slow paper, yet I would say it is reasonably secure.

If the swap is agreeable to you, kindly change your collateral records accordingly and advise.

Yours very truly,

W. F. BUCHHOLTZ.

(Signed) W. F. BUCHHOLTZ.

1-19-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wash.

General.

Dear Mr. Triplett:

Not much special to-day. Deposits dropped about \$3000.00. Drafts on you over to-day's remittance of about \$6000.00 with \$9000.00 clearings on hand for to-morrow morning. Collected about \$2000 in cash on loans, which is over our average of late.

On the Lowe State Theatre account, it is not so bad. Last week they ran behind only \$1004, and we got our wire for credit the following morning. In fact we are safe on this as they keep three to five accounts and the pay-roll and expense account

is the one which runs short and usually there is enuf money in others to cover the shortage with good deposits every day and should there be any delay or stop to the thing in New York, we could immediately refuse to give them credit for the shortage slip and would be covered for what we were out in any case. In fact on the average I think they would have about \$4000.00 average balance; sometimes much more. For instance they have Madam Pavlowa this week with a special account. It is now over \$3000.00 alone and settlement is made at the end of the week and the account all told is not so jerky but to be of some value. Especially right at this time they bring us lots of currency and silver.

Herb took on the \$6500.00 H. D. Smith paper without a murmer for which we are grateful.

As a whole, I can't say the situation is getting any worse of late, but it seems that actual cash is getting scarcer and scarcer. Every kind of a deal is always paper, if a fellow sells anything he gets paper or credit on account with a promise to pay soon. Lots of apple growers can't get their money from dealers and things just drift, drift on. I am not talking it or wish it on to myself, but it appears that right at present conditions are getting from bad to worse. Of course the old timers around say you can't expect anything in January and that things don't move around here until Feb., March, and April. Here's hoping.

Sincerely yours,

(Signed) W. F. BUCHHOLTZ. [132]

1-19-21

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Mr. Triplett:

I submit the following notes for rediscount and credit:

H. C. Schumacher & Sons	\$ 600.00	due	3-2-21
Wapato Const. Co.	2500.00	due	2-6-21
Wapato Const. Co.	3000.00	due	2-6-21
Jerome Lewis	4600.00	due	3-20-21

Total \$10700.00 ..

Schumaker note unsecured, financial statement 1-19-21 Wapato Const. Co. I think is in pretty good shape with prospects of full collection at maturity. History on transaction enclosed together with assignment of amount due on school contract, all told 5 forms.

Jerome Lewis, secured by tax certificates, you know about as you have had it and this is renewal, history enclosed. I know you aren't keen about this. I have the tax c d's in my possession and they total amount shown. We might get considerable on this in 60 days and might not, but in the end I believe the security is good. It is made up of a long list of small items of from \$150.00 down and as these are paid, the county treasurer gives Lewis a check and he applies them on the note. During the last 60 days there has been only about \$150.00 applied, but Lewis thinks the note will be half absorbed by maturity at least.

I hope you can get this on the books without de-

lay as we will need it to meet that \$17,700 draft which will likely reach you Friday.

I will send more as soon as I can get it in shape.

Sincerely yours,

W. F. BUCKHOLTZ.

(Signed) W. F. BUCKHOLTZ.

P. S.—You will observe that I made end. of 1000 on Wapato Const. Co. to-day. The Jerome Lewis note is renewal of note you had. The rest new.

1-19-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Mr. Triplett:

Your letter of the 18th received with reference to charging back rediscount maturities. I fully agree with you that the system is all wrong. It is worse than that. It is rotten, but for the present and no doubt for some weeks, it will remain a question of which is preferable to you—overdrafts or past-due rediscounts. I would like to increase our rediscounts about \$20,000.00 and get a balance enuf ahead to cover charges of maturities, but would you consider stuff that will not be paid until 1921 crop returns are in? There is a limit of the liquid stuff and if the maturities are charged up and we have 10 to \$15000.00 of it on our books continuously for collection and renewal—you can't keep it down closer; needless to say I will keep pounding away at it with all possible speed.

I know our O. D. was covered to-day; besides I will get out some notes for rediscount in to-day's mail, but keep a stiff upperlip when that \$17,700 draft to Seattle Natl. hits you about Friday; in the meantime, we may have some good remittances; to-day was light, altho we have \$9000 for clearing in the morning. We collected a little over \$2000.00 in cash to-day on loans, but the situation is largely still in a kind of deadlock. [133]

The slip showing O. D. the 18th of \$6755.25 received. If our \$18,000.00 remittance reached you to-day as it should have covered temporarily and in the meantime I am sending what I think is the best I can scrape up and will continue to send more.

Yours truly,
(Signed) W. F. BUCKHOLTZ.
For Cashier.

January 20, 1921.

Mr. W. F. Buckholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Subject: Brown. Sheep man.

We got you the first time. The matter was discussed in our Executive Committee, and I also had the pleasure of talking it over with our attorney, Mr. B. H. Kizer.

If it were possible to do so, our thought would be for Mr. Brown to go somewhere else to get the money and pay you off. Under present circumstances that is impossible, so the only thing to do

is to "see him through" by putting up the \$600 that is needed for shearing and lambing purposes. As Mr. Brown is now coming to you for assistance, this is the time for you to tie up everything he has so there will be no question about the ultimate payment of the loan. We feel you should get a chattel mortgage on his entire bank of sheep amounting to about eleven hundred head; that the mortgage should recite the working arrangement between him and his father-in-law, and that said father-in-law should either in writing or before witnesses who make an affidavit, state the facts of the case as far as he is concerned.

In other words, Brown's ownership of the sheep should be established beyond any question of doubt. In case the old man won't sign, then have Brown issue an affidavit setting forth the facts, have it witnessed and regularly sworn before a Notary Public.

This is about all there is to it, and we feel confident we can leave the matter in your hands for action—our only thought being that Chambers should commit himself so that there would be no misunderstanding.

Sincerely,

W. T. TRIPLETT,
Vice-President.

R.

January 20, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Subject: Gray and Barr notes.

Renewal satisfactory. Your account has been credited \$2,880.75 to cover the proceeds of the new notes, and charged \$2,900 to retire the old ones.

The main thing as we see it is to watch these boys and not let them be too optimistic about future prices. You no doubt realize that the market on everything is slipping and that at best it is very, very slow. There is not enough idle money in the world to buy any great amount of produce, and on top of that the day to day and hand-to-mouth market is not conducive to higher prices.

Sincerely,

W. T. TRIPLETT,
Vice-President. [134]

R.
Enc.

January 20, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Subject: M. B. Campbell loan.

He owes too much in comparison with his liabilities, and in our opinion you ought to get yours while the getting is good. He is not the sort of customer who will ever be of much value to you,

for by the time he pays a couple of thousand a year interest on his indebtedness and pays his expenses of operating, he will not have enough left to become a valuable depositor. The fact that he has borrowed from another bank is almost sufficient to cause you to sit up and take notice.

I would say collect,—unless he gives you warehouse receipts for a sufficient amount to cover your loans, and he should not place the value of the apples at over \$1,00 per box. At that you may get stung. Optimism is a fine thing but we would rather have the money. If he thinks he can get \$2.25 or \$2.50 a box and can find someone else to finance him, that is the thing for him to do. You cannot depend much on the judgment of a man who this year sold his crop and bought tractors or automobiles, and increased the improvements on his place. If you can get the tickets, of course we will renew for thirty days with the understanding that he pays at maturity.

Messrs. Ellis and Barghoorn both seem to feel that if you put on the pressure too hard the borrowers will begin to talk about the bank, and to some extent we feel they are right,—but on the other hand, fear is about the worst thing in the world. It causes a man to neglect his business and to almost crawl into a hole and pull the hole in after him. The fellow who goes on about his business and does what is right, having the diplomacy of which we well know you are possessed, is bound to come out on top, and I have not the slightest

idea but that you can pull things out along those lines.

Sincerely,

W. T. TRIPLETT,
Vice-President.

R.

January 20, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Subject: E. F. Burrill note.

We have accepted this as substitute collateral against your \$20,000 loan. I notice you do not say "security"; you merely used the word "collateral." Nuf sed. However, there are some things we have to make the best of.

The only thing we don't quite understand, is why when the collateral notes are paid you do not apply the amount on the loan instead of substituting something else.

Sincerely,

W. T. TRIPLETT,
Vice-President.

R.

January 20, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Subject: Franc Investment Co.

We are holding the \$11,000 note here for safe-

keeping for your account, and as some little protection to your overdraft, although we are not banking on it too much for that purpose, for we do not want an overdraft if it can be helped. [135]

We are looking to you to keep us using black ink instead of red.

Sincerely,
W. T. TRIPLETT,
Vice-President.

R.

January 20, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

In General.

I want to again impress upon you the necessity of keeping right on top of these borrowers and not letting them get away from you. We have had so much grief this year that we have come to realize that no dependence can be put in either the market or the predictions of the borrowers. They are all optimistic and seem to feel that as soon as spring opens up things will begin to move, while, as a matter of fact, there is nothing in sight to verify their predictions. Money is tighter than ever, is hard to get; people are not buying anything unless they have to, and that includes food stuff as well as clothing, and we do not look for any decided movement until prices stabilize somewhere, and the stabilization point has not yet been reached. Things may hang around a given point for a few

days, but everything is on the down grade and they will go a good deal lower before they come back to any kind of normal basis. Prices have been abnormally high, and they must go subnormally low before finally adjusting themselves.

You know how it is: Bill is going to pay you because Tom is going to pay him, and Henry is going to pay Tom, and Jim is going to pay Henry, and by and by Jim fails to sell his stuff and the string is broken and nobody gets his money. The only safe course for a banker to pursue is to get the collateral in his own hands, and use the pressure that is necessary to smoke them out.

I only wish we could look for higher prices; it would mean so much more money in the community for us, and you can bet your last bean that if we thought for a minute prices were going higher we would not advise anyone to sell, for we want all the money in circulation that can be put in circulation. It means bigger deposits for us and greater earnings. On the other hand, we are just as anxious that the farmers and growers sell their produce now instead of waiting until the price goes lower, because in the latter case our deposits slump accordingly.

Your account is overdrawn to-night \$7,726.10, and the big Seattle check has not shown up yet. It looks like you will have to pass along a few more rediscounts.

Sincerely,

W. T. TRIPLETT,

Vice-president.

R.

1-20-21.

W. T. Triplett, Secretary.

Spokane & Eastern Trust Co.,

Spokane, Wash.

Dear Mr. Triplett:

Enclosed find for rediscount and credit the following notes:

John Lufe	400.00	Statement	
W. Hasegawa			
H. Tateoka	775.00	"	Hasegawa
J. L. Barney	3,000.00		
Ralph B. Williamson	300.00	Secured by U. S. Liberty bonds	
		\$400.00	
Total	<u>4,475.00</u>	[136]	

I will forward the \$400.00 liberty bonds to-morrow as they need conversion anyway, and to-night are locked up.

The Luft note \$400.00 might not come to requirements, but the old man is an honest fellow and besides himself has two boys working and in some way will manage to clean it up, and besides is in fair shape, owing little.

The Jap note is only 15 days; he has sold spuds and will pay in two weeks.

The Barney note is back once more. Ellis handled Barney while I was out. He voluntarily paid the \$500.00 on it and told Ellis we could have it in full any time by a couple days notice. Barney is really in pretty good shape. Barney & Callahan operator strictly cash stores at Yakima, Pasco, Kennewick, Cle Ellum, Roslyn and others, altho in some places the stores are under other names. They are in easy shape, maintain balances at this bank of from \$10,000.00 to \$20,000.00 continuously.

Barney attends to buying from all and handles all cash. Of late their account has been down to \$5,000.00 as they have been sending some funds East, but the turnover is good, the other towns remitting here. There is no doubt that he can draw the money from the store accounts and that he is good for it, and would be entitled to it, as they always have more money in the bank than this note, altho I admit it should be gotten down to a definite commitment as to payment, which we haven't got. If worse came to worse, there is no question but what you could collect this note on the outside.

Yours very truly,

(Signed) W. F. BUCHHOLTZ.

P. S.—I have endorsed these myself as Ellis isn't here to-night.

January 21, 1921.

Mr. W. F. Buchholtz,

Central Bank & Trust Company,

Yakima, Washington.

Dear Buck:

Re: Rediscounts.

Your account has been credited with \$4,411.42 to cover the proceeds of the rediscounts sent in your letter of January 20.

They look better than the average run of notes, and we believe you will be able to work them out. We are not concerned much about Barney, as he seems to have plenty of assets and to be a mighty good customer.

Sincerely,

W. T. TRIPLETT,

Vice-President.

R.

January 21, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Re: Collateral.

As requested, we are using the notes of B. L. Chaney \$1,000 and S. L. Allen \$1,934.20 as collateral to your loans in place of the Wapato Construction note \$2,500.

We could be arrested for what we think of the Allen note. While on paper it sounds good, his statement shows a net worth of such a small amount as compared to what he owes that he seems hopelessly lost in the shuffle. However, for the reason that it has to be done, we are making the substitution for you. Mr. Allen may be able to pay out of his 1921 crop, but all of you fellows who are connected with the Central Bank & Trust Company had better [137] get down on your knees and start to praying that everything will run along right, or I fear you will never get the money.

As a matter of fact, I can't for the life of me see how that loan ever got in the bank. Somebody must have used a gun one dark night when there was nobody else around.

Sincerely,

W. T. TRIPLETT,
Vice-President.

R.

January 21, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Re: Rediscounts.

Your account has been credited with \$10,622.15 to cover the proceeds of the rediscounts sent in your letter of January 19. You have been charged \$4,752.48 to retire the note of Jerome Lewis, renewal of which was enclosed to you.

Congratulations on getting the Wapato Construction loan in such good shape. You handled it just right. The only thing left to do is to see that the money they get comes to you to pay off their notes.

As to Jerome Lewis—it is one of those things that may take a long time to work out. Under ordinary circumstances we would not be favorable to making such a loan because things are too uncertain, but for the good of your bank the Executive Committee passed it through.

Sincerely,

W. T. TRIPLETT,
Vice-President.

R.

January 21, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Re: Loewe Theater.

Glad to hear you have this account in better

shape. We talked it over somewhat with Mr. Barghoorn when he was here the other day, and both Mr. Rutter and I are of the opinion that it is not an account which you might ever expect to get much out of.

It is one of those things you have to watch like a hawk, and we believe he should be able to finance his own operations without calling on you for advances at the end of each week.

Sincerely,

W. T. TRIPLETT,
Vice-President.

R.

January 21, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

In regard to the Associated Fruit Company drafts—we are charging your account to-day as follows: [138]

October 14.....	\$1,277.50
" ".....	1,277.50
" ".....	1,596.00
" ".....	1,240.00
November 20.....	1,134.00

These have been entered for collection and will be credited to your account when and as paid, but I think you had better get after them and see if you cannot get the money.

There are two other drafts which have been out a good while, and I wish you would see the makers and try to get action at an early date. We refer to

vs. United States Steel Products Company. 211

William Joseph, Pittsburg, December 9.
\$2,060.20 received by us.

I. Cohen & Sons, December 16. \$1,000.00 received by us.

Sincerely,

W. T. TRIPLETT,

R.

Vice-President.

January 21, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

Enclosed is a memorandum showing a credit for \$493.25 to cover the Linse and Frisque notes. 'Nuf sed.

It will be agreeable to us to renew the Barney note when you get a new statement and all the trimmings.

Sincerely,

R.

W. T. TRIPLETT,

Enc.

Vice-President.

January 21, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

It will be agreeable to us to exchange \$10,000 worth of Liberty Bonds with the County Treasurer, and we are sending you under separate cover by insured, registered mail, the bonds shown on the enclosed memorandum.

Before turning these over we will ask that you not only send us the bank's receipt for the other bonds, but also the receipt which the Federal Reserve Bank sent you in connection with the conversion. We would not want to take the bank's receipt alone, as we would be in the same position as the treasurer, which you will admit is bad business.

We are depending on you to keep track of it, and see that when the bonds come back from the bank they are personally sent to us.

Sincerely,

W. T. TRIPLETT,
Vice-President.

R.

January 21, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

As I told you yesterday over the telephone, we are well pleased with your [139] letter about the conversation you had with Mr. Ellis in regard to the Wapato Construction Company notes. There is no use in mincing words with that fellow. He either has not the backbone to follow a safe banking practice, or there is something wrong with his noodle. It seems to me that his experience in the last two months should be enough to teach him to go slow, but from our judgment of the man the only thing that can cause him to change his course is a bump right square in the face for himself, and not the bank.

You handled the matter right, and particularly as regards the policy of his directors. Those accounts brought in by Miller and Champ are nearly all dead weight, and there is no use in mincing words with them. The kind of business you should support now is that of non-borrowers who will have crops and whose deposits can be used to liquidate indebtedness.

Sincerely,

W. T. TRIPLETT,

R.

Vice-President.

1-21-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Mr. Triplett:

Collateral.

Enclosed are the B. L. Blood note \$400.00 and H. Z. Honda \$3000.00 which you returned for endorsement of this bank.

I have taken out the Conrad Weiss note of \$1480 odd out of the collateral due to condition of borrower and am substituting the following in its place.

H. Z. Honda	1100.00	due	4-17-21
A. J. Withers	250.00	,,	3-23-21

This makes all of Honda's notes up as collateral or \$4100.00. This may not look good to you but it is secured by tangible assets consisting of hotel furnishings in two hotels, lease paid on one for 3 years in advance. Furnishings valued at \$10,000.00

insured for \$8000.00. This is large but when things pick up, the Jap hotels make quick money.

Statement enclosed on Withers. We will get something on that soon.

Yours very truly,

W. F. BUCHHOLTZ.

Enc. 4 (Signed) W. F. BUCHHOLTZ.

1-21-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Mr. Triplett:

Enclosed are original notes as follows:

A. A. McDermid \$1200.00

L. W. Adams 100.00

renewals of rediscounts the same for \$1300 and \$175.00.

New statement and history on McDermid enclosed.

L. W. Adams cut off \$75.00 which he saved up. He hasn't gotten his apple money as yet. You have late statement. He is a clean cut young fellow and hunts up some work when he is idle. States he will clean up his two notes as they stand now by maturity. [140]

On the McDermid statement, I don't like the looks of the payment on his residence, but he assures me will clean up here out of hay and we will watch him.

Also kindly charge our account with \$200.00 and endorse on the Baldoser rediscount. He left his check for interest and \$200.00 on principal when

I was out. I want to get new statement before renewing and expect to get hold of him to-morrow.

Kindly advise details of entrees and oblige,

Yours very truly,

W. F. BUCHHOLTZ,

(Signed) W. F. BUCHHOLTZ.

P. S.—That makes \$375.00 cash collected on your rediscounts today—going some, don't you think?

January 21, 1921.

Mr. W. T. Triplett, Sec'y.,

Spokane & Eastern Trust Co.,

Spokane, Washington.

Dear Sir:

Enclosed find the following U. S. Liberty Bonds:

Rate	No.	Kind	Amt.
4 $\frac{1}{4}$	9104835	Fourth Loan	\$100.00
„	9104828	„	100.00
„	9104829	„	100.00
„	9104827	„	100.00

aggregating \$400.00 to be held as collateral to the Ralph B. Williamson note of \$300.00. We have no hypo on this, as the bonds were taken out of a bunch of miscellaneous collateral held by this bank to cover any loans made Williamson.

Kindly have your collateral department attend to the conversion of the bonds.

Very truly yours,

W. F. BUCHHOLTZ,

B/H (Signed) W. F. BUCHHOLTZ.

1-21-21.

R. L. Rutter, President,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Mr. Rutter:

To give you an idea as to how quickly and unexpectedly a hay farmer can go broke in an irrigated country and secondly my idea as to the importance of complete and thoro statements, the necessity for following up with a second statement after the crop is grown, instead of a statement showing crop estimates—all from the standpoint of the rediscounting bank or the Federal Reserve Bank—I enclose statements as of June 2, 1920 and Jan. 1, 1921 of one Conrad Weiss, a borrower of the Central Bank & Trust Co.

In this instance, first the statement of June 1, 1920 was not complete. The borrower was not questioned closely enough, and the important error was the fact that the bank did not find out that the borrower was growing the hay on some 300 odd acres of Indian lands leased at the rate of \$8 per acre, the least constituting a first lien on the crop, and against the crop of \$6250 there should have been current debt of \$2400 as rent to be paid. [141] Weiss is a Russian, speaks very poor English and he couldn't understand me very well, and I tried German on him, which tickled him to death and I found that I could get his lingo better than he could my English and we got along fine, and I think I have his affairs down very closely. You will note I have his 375 tons of hay down at \$10.

Even this is high as it is not baled as yet and a long haul. Weiss says he does not figure on more than \$8.00. The Indian who owns the land is a half breed Chinese who gets drunk every few days and goes after Weiss with a long knife until he has him scared to death, so Weiss gave the Toppenish bank and the Case Tractor people chattel mortgages on the hay subject to prior lien of the Indian agent on the lease, and is now staying away from the reservation entirely, telling the Indian agent and the Toppenish bank to sell the hay for him and if there was anything over to send it to us.

Part of the \$1500 was borrowed for expense on the hay ranch; and had he been able to get \$18 and \$20.00 he could have cleaned up his entire current debts, including the \$1000.00 land payment. The holder of the land contract has made him no promise to carry the payment over. Even if he does, next fall he will have \$2000 to pay on the contract. He has given up the hay farming business and this year will farm only the 25 acres which he is living on. There is only one hope and that is the possibility of getting, say, a \$5000 or \$6000 mortgage on his place. He is going to put in some sugar beets and other truck, and his two boys are going to work for wages all summer to help get out of debt, and that these boys had agreed to stay with him until he had everything paid off again. He won't need any further credit as they can get by with their milk checks and eggs, having plenty of feed for cows and chickens.

I took a chattel mortgage on horses, cows, hogs, machinery, and all crops to be grown on the 25 acres which is subject to prior mortgage on horses and part of cows to the bank at Toppenish, but he will of course have to meet two payments on his place of \$1000 each unless he can get extensions or arrange for a mortgage.

In 1919 this man sold over \$5000 worth of hay, paid all he owed and had money left in the bank. It is true that the hay association at Toppenish is selling hay at \$14 and \$16, but Weiss doesn't belong to the association and they won't handle it for him, baling expense of \$3.50, hauling and waste. He will do well to realize \$7.00 net which knocks off over \$1000 from amount listed.

This shows you how some of these fellows get hit and the necessity of keeping in close touch with borrowers and not taking too much for granted. The June statement looks good and I venture the Federal Reserve would have taken the note. A year like this should teach both some bankers and borrowers a few lessons which they should not forget immediately after they have one good year of crops and markets.

There were enough vegetables and fruit rotted in the fields in the Yakima valley to feed thousands and thousands of starving people, and it will appear that the government should have taken action to at least save a part of it when it wouldn't pay harvesting expense. Instead of that, solicitors came around to these very people and asked for cash contributions to aid the starving in Europe.

Weiss says he would have been better off financially if he hadn't harvested his hay at all. Can you beat that?

Sincerely yours,
(Signed) BUCHHOLTZ. [142]

1-21-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Mr. Triplett:

In one of your letters of the 20th you touch the subject of apply collections on collateral notes on bills payable.

The idea is all right and from the viewpoint of ordinary rules and regulations, customs, etc., pertaining to business methods, it can only be the proper thing to do.

Mr. Rutter has written to me that we can expect no increase in deposits with perhaps a spurt upwards now and then, and that the only way of liquidating the indebtedness of this bank is to collect on loans. At present practically all of the paper which I have nerve enough to send for rediscount is there with exception of a small amount in the process of collection or renewal and some miscellaneous small stuff on which we haven't the statements and information up on.

I have talked with other Yakima bankers. They are bearing a heavy burden also, but they are all more or less confident of a good washing out of stuff during the next 90 days, mostly thru apples,

hops, potatoes, and some miscellaneous stuff, few having much confidence in hay. This theory is our only possible chance to liquidate our borrowed money down to a reasonable amount and maintain a cash reserve. Should we have a raise in deposits, even tho it might last only 30 or 60 days, it would naturally help our reserve, altho I admit it would be nothing to depend on and liquidation must naturally continue with the same pressure as before. During the process, which at present is very, very slow, I hope to gradually work down our rediscounts as collected and in this way. If anything substantial is accomplished, the best grade of paper will steadily disappear with the money going out, resulting in no betterment on our reserve condition. Needless to say, reserves must be kept up and the only possible way for the present at least, is that if collections are made on notes hypothecated, to keep the money here and give you something else. Of course the collateral will in this way become more and more of an undesirable nature, but I will keep it in as good shape as it is possible to do, keeping in mind that none of this should be of any question as to collection out of 1921 crops, and I am hog-tying everything of that nature by chattel mortgages on equipment and 1921 crops where there is anything tangible to get a hold of. Under separate cover, I am sending Mr. Rutter a \$1500 note of Conrad Weiss, renewal of item held as collateral, and the story that goes with it. This item may appear very bad, but if the proper attention is given it next fall and markets amount to anything at all,

it can be cleaned up at that time, even if we have to close him out and allow his ranch to go back by default, hoping in the meantime that better days are coming and that it won't be necessary to be so harsh.

There is only one way that I know of to raise more cash, and that is by arranging the liberty bond loan in Seattle as we have done with you, giving Herb some real estate contracts and mortgages as collateral if he will take it; this is practically the last breath, and inasmuch as our deposits for the last ten days or so have held their own quite well at about \$440,000 to \$455,000, I have lived in hopes that we could get by without this last effort and avenue of relief.

In view of these conditions, if it can be worked out, it will be worked out, and I know that you have to stretch your imagination and use a high powered microscope in looking at the favorable points to the situation; in fact compare this institution to a man at the point of death but with a hopeful doctor on the case who is able to detect a slight heart action, and altho the patient was rapidly failing two weeks ago, the doctor's report is that for the past two weeks now have indicated nothing worse developing, with a possible gain in strength scarcely discernible, and speaking to the patient's wife and children, you would say that he had good chances for complete recovery. [143] In concluding, unless you insist, we will continue to hold what few pennies we might collect on your collateral notes

and substitute other stuff, which I hope you will O. K. for the present.

Sincerely yours,

W. F. BUCHHOLTZ.

(Signed) W. F. BUCHHOLTZ.

January 22, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

The rediscount notes of McDermid and Adams came this morning, and we have put them through our books. Your account has been credited \$1,285.-31 to cover the new notes, and charged \$1,673.13 to retire the old ones.

I don't like Mr. McDermid's statement very much, and I think you had better keep your eye on him to see that he does not divert his funds when he sells his hay. This is one of those cases where the first fellow who gets to the customer gets the money.

Sincerely,

W. T. TRIPLETT,

Vice-president.

R.

Enc.

1-23-21.

R. L. Rutter, President,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Mr. Rutter:

Enclosed is list of loans which I think can be col-

lected in full during next 90 days aggregating \$147,941. This of course does not include partial reductions on those which cannot be collected in full. There is considerable of that class. I have gone over it somewhat and a conservative estimate of cash collection possible out of that I think can be placed at \$50,000. I am not taking Ellis's ideas closely and on such paper as I have had no opportunity to check up with the borrower. I have taken considerable salt with his estimates. Where he figures cleanups on some, I have in some cases figured as low as 50%, playing hunches and what information I have picked up and can read between the lines on old statements, discounting heavily where hay is depended on largely and the margins are not closely known.

This will be part of my report and I will appreciate it if you will have the sheets filed so that when I get it all there, they can be fastened together to make it complete. I am pushing along on the report at Mr. Triplett's suggestion and have a good start, but as it is a Sabbath night my conscience tells me that 11:30 is late enough and I know I should have gone to church and prayed for strength and good luck, but I have an alibi which I believe justifies my working tonight. Doesn't the gospel teach us that if it is possible to do some good for your fellowmen on a Sunday, to do it? I believe if I can be of some service in saving a part of the depositors here from loss of their hard earned cash, especially the widows and orphans, I should be per-

fectly justified in working to-night instead of attending church.

I am beginning to make a little speed on the little Corona which I have in my room, but as I am a touch operator it is awkward to change back to the Hunt & Peck system; besides the two shifts for capitals and figures bother me and that accounts for the poor work, but I trust you can make it out, and I am improving rapidly, as well as gaining speed.

Sincerely yours,

(Signed) W. F. BUCHHOLTZ. [144]

January 24, 1921.

Mr. W. F. Buchholtz,
Central Bank & Trust Company,
Yakima, Washington.

Dear Buck:

The patient's friends and family are glad to hear that he is better; that he is no worse, and that he shows good prospects for improvement in the near future. This is extremely gratifying, but in the last analysis it means that the doctor must stay on the job night and day so as to be prepared for any relapse which may come, and to change the medicine if that is desirable. You know the old story about "A stitch in time saves nine." I don't know whether I learned that out of the back of an old spelling book or dictionary, or whatever it was, but nevertheless, it holds as true to-day as ever.

Your method of handling the collateral notes, while satisfactory from your standpoint, is not so

satisfactory to us, for the reason that our collateral will keep getting more and more shoddy as time goes on. We are willing and ready to stand back of the institution to a reasonable extent, but feel in so doing we should have a class of paper which will prevent any loss on our part. Many of the notes we have taken on are not up to our regular standard, and it was only because of your judgment after investigating at close range that we were willing to take them. Naturally, we do not want to take any more uncertain paper if it can be helped.

Our Executive Committee feels that you should immediately get in touch with Herb, and if possible arrange for him to purchase the Liberty Bonds from you, with the understanding that you will repurchase them within a reasonable time; also that he will permit you to put up notes and mortgages at the rate of one and one half to one behind the \$30,000 he is now carrying for you. This will give you \$30,000 additional money and should enable you to go on without any further assistance from us.

You will appreciate that we are already carrying a very heavy load for the bank, and that Herb ought to be willing to do that much for you. I think he will if you go at him in the right way, and remember, every nickel you shift over there means just that much to us. In case, however, he will not do that, get him to purchase the Liberty Bonds and send us your note for \$30,000 collateral by one and one half to one of "good but slow" paper. What I mean by that, is paper which although it will ulti-

mately be paid cannot be liquidated from so-called quick assets.

It is one thing for us to get behind the bank and another thing for us to take a loss on it. Deposits are bound to slump, but we do not want to be in a position of having to pay them off at a sacrifice to our stockholders.

I mention these things so you will understand that while our feeling is the most friendly in the world and we are willing to do everything we can as long as the stuff is reasonably good, we do not want to get into the position where we will ultimately lose anything.

It seems to us with deposits slipping the way they are, and with the prospects ahead none too good, the deal for the sale of the bank should be hurried along as fast as possible, so that our mutual friend, Mr. Barghoorn will get out without greater loss than he will now sustain. In other words, I would rather take the prospective purchasers up on their own proposition than to hold for a higher price. If conditions go on much longer as they are now the institution will soon be in a place where no one will purchase, and then it is a case of either closing its doors or getting someone to see it through.

Sincerely,

W. T. TRIPLETT,

Vice-president.

Buck:

Our people aren't satisfied with the small notes. They think he is broke. Better dig around in the

old walnut sack and see if you can't substitute something else. [145]

January 24, 1921.

Mr. W. F. Buchholtz,
c/o Central Bank & Trust Co.,
Yakima, Washington.

Dear Buck:

This will acknowledge receipt of the collateral notes of H. Z. Honda for \$1100.00 and A. J. Withers for \$250.00 in replacement of the note of Conrad Weiss for \$1486.39, sent you for collection.

We also received the two notes of B. L. Blood for \$400.00 and H. Z. Honda for \$3000.00 sent you for endorsement.

Yours truly,

W. T. TRIPLETT,
Vice-president.

B.

1-23-21.

R. L. Rutter, President,
Spokane & Eastern Trust Co.,
Spokane, Wn.

Dear Mr. Rutter:

The last three days, I have felt very discouraged with the way things have been going. As already advised, I have not expected to make a great showing in reducing rediscounts during January; in fact, I have felt that if we were able to keep up sufficient reserve to keep from overdrawing in Spokane, I would be pleased. I had hoped that after the liberty bond arrangement was made, giving us

\$20,000.00 more working cash, plus some \$60,000 more in rediscounts credited that we would be able to maintain a balance to our credit.

On Jan. 5th when I arrived here, we had about a \$50,000.00 overdraft with some \$8000.00 in fruit drafts gone hay-wire not charged back, making a total shortage of about \$60,000.00 at that time. In addition to covering this, our deposits dropt from \$482,000.00 to \$430,000.00 Friday night, which is rock bottom to date. You will see at a glance how far the above \$80,000.00 new money went.

During the 17 days that I have been here we have collected in cash a total of \$15,259.08 and the enclosed adding machine slip will indicate that about \$10,000.00 of this consisted of small items and that very little large amounts have come in and I don't expect anything large for ten days more; but to get down to my subject of reserves: The large items when they do come in will of course go on rediscounts with no improvement in our reserve. It is reasonable to expect that our deposits will remain above \$400,000.00; in fact, we have hopes that they will hold up pretty well to where they are. The past week the shrinkage has not been bad and all of a regular nature, but to face possibilities square in the face, say we drop to \$400,000.00 during the next two weeks, with collections on stuff in our pouch here to perhaps \$10,000 it will hit our reserve to the extent of \$20,000.00 more. This is a conservative view and we of course hope it will not be that bad. As we stand at this time, if all items are in the counting the \$6500 in apple drafts charged

back the 21st, we will have an actual overdraft of about \$15,000, and I cannot figure out more than \$5000 of notes in our pouch here that can be expected to possibly pass muster for rediscounting unless I run on to something as I take new statements—some borrowers we have no statements whatever. [146]

There can be no sudden large drop in deposits other than a possible actual run on the bank which we have seen no signs of for ten days or more.

I have as yet, nothing completed in the shape of figures as what can be expected in liquidation during the next 90 days, which depends of course on the market on apples, hops, potatoes, and hay, in proportion and importance as per order named, we being fortunate not to have a great lot of hay loans where the margin is short. As written heretofore, business men and bankers here are confident of a good movement during February and March, tapering off in April. If there is not, I might add that there are many other institutions besides this one which will not be able to stand the test.

Altho I have not totaled up exact figures on loans based on each commodity and the probable liquidation thereof, if deposits keep up to where they are or nearly so, enabling us to keep up a reserve, I feel justified in making the statement that I am still confident of cutting down our borrowed money to a nominal amount if not entirely during the next 90 days.

Now I know very well that you don't want an overdraft, especially not running up into large

amounts, and needless to say, I am making every effort to better that condition, and as stated am nearly at the end of the rope unless one or two things can be done.

If Mr. Barghoorn can arrange to carry our liberty bond loan in Seattle, we might possibly arrange with the bank there to carry a note of \$10,000 secured by slow but eventually good stuff, in the shape of real estate contracts and mortgages. This is one possibility which would help. The second is for the S. & E. to rediscount the Franc Inv. Co. note of \$11,000.00 and the Johnson Drainage note of \$5000.00 to be endorsed by Mr. Barghoorn. If neither of these arrangements are possible, there is only one more avenue of relief, and that is to whip up some of the stuff you are holding as collateral into rediscounts and substitute a poorer class of security.

Otherwise before we can collect enough to get ahead on reserve, the overdraft will be there and it will run up to \$10,000 and \$15,000 no doubt, perhaps more if deposits drop, and more drafts for fruit are charged back. In fact, it sifts itself down to whether you desire by all means to keep this institution open by all possible means, depending more or less on Mr. Barghoorn's personal credit, or whether you have set a limit as to how far you will go. Should the expected liquidation during the next 90 days fall far short, and it is necessary for you to carry, say \$50,000.00 more of more or less paper of slow nature, which will reach an enormous sum by that time, I might add that I believe

the possibilities of the institution for future business and earning power to charge off bad paper is here. A bank is needed in this location and a good volume of business is assured, and with close and proper management, there is no doubt in my mind but what the indebtedness carried by the Spokane & Eastern Trust Co. can eventually be worked out and kept within reasonable bounds and worked into a valuable account.

The problems and work to keep up reserves is not at all an easy matter. The suspense is awful, waiting for something to move and bring in cash. It is by far the most stupendous task you have ever seen fit to put me to. I appreciate your confidence and am not weakening, but if you could write me a letter stating whether or not you will back the institution and myself any further in case of necessity it will greatly strengthen my morale, and I will benefit by knowing what to expect, and my very best efforts are pledged to you to get the situation worked out.

Yesterday, we mailed a \$51,000.00 draft on you to the Seattle National Bank covering a large letter of items on other local banks, the net of which has been remitted to you and no doubt we will have a few dollars there to meet it. The draft will likely reach you Tuesday or Wednesday and if you pay it the overdraft created will be the limit to date of credit advanced this institution. Have Mr. Triplett ascertain the amount of the overdraft created [147]

if this draft is paid. If you do not pay it we are gone.

Sincerely yours,

W. F. BUCHHOLTZ.

(Signed) W. F. BUCHHOLTZ.

P. S.—I might add that by keeping the institution open and if necessary advance further requirements which could hardly total over \$50,000.00 more in any event, that it will in my positive opinion result in a much shorter time for the Spokane & Eastern Trust Co. to get their money back then to close it up. We still have hopes of a sale to bolster the situation up, but I am not depending on that.

1-24-21.

W. T. Triplett, Secretary,
Spokane & Eastern Trust Co.,
Spokane, Wash.

Dear Mr. Triplett:

General.

Looks pretty nice to get a slip showing a \$39,000 balance for Saturday, but wow, you wait till that big draft hits you to-morrow or Wednesday, which, together with the drafts charged back, will mean an overdraft of probably \$15,000 again.

I have written Mr. Rutter a letter in regard to the situation, and to be frank I cannot figure out any chance of keeping the balance in our favor outside of the methods outlined therein. I have about \$2500 in new stuff for rediscount in shape, but the notes are locked up and will forward the stuff to you to-morrow. I can send you some other

low grade stuff, if it would suit you better than an overdraft for the present.

Wish you would write me frankly on how the S. & E. feels about things here and whether we can expect you to honor our drafts if the overdrafts should go up to \$25,000.00 or a little more, say for ten days or so and see if something doesn't develop by then.

Things don't look entirely hopeless on the apple situation. Smith showed me a telegraphic order for four cars at \$2.50 to him, which is 40¢ over last week's prices, and he says inquiries are coming in thick to all the dealers, and that they all look for good business during February. Hay is being shipt every day now at \$16.00, that is A1 stuff and altho the volume isn't so great, it shows that something is doing.

Perhaps I am taking things too seriously, but I had hoped that that large bunch of rediscounts and the liberty bond arrangement would keep our overdraft covered, but that bunch of E. S. Small drafts during the past few weeks aggregating about \$8,000 or \$10,000 has put an awful crimp into us, together with the slow regular shrinkage in deposits has run us out of funds. Some money is coming in on notes but it doesn't amount to anything in the way of helping the situation, and unless things improve this week I don't know what we are going to do, unless the S. & E. will carry the institution thru.

To-day it didn't get any worse. We collected about \$1,700.00—\$1,000 of which went on your re-

discounts, with a drop in deposits of only \$1500. I wish I could make things as easily as some people I know, and perhaps I should feel more at ease about it, depending more or less on the strength of your letters and Mr. Rutter's that you would back me up. You have taken on everything I have sent for rediscount it is true, but I haven't the nerve to send you any junk for that purpose and the overdraft keeps wearing and the paralytic circumstances here ride on me. The suspense is awful. [148]

I am going to bed a little early to-night. Sunday morning after I had breakfast and went to my room, I felt as tho I hadn't had sleep enough and thought I would flop on the bed for a short rest. I dropt off to sleep with my clothes on and no covers and didn't wake up for three hours. As a result I took a cold in my head. It isn't so bad tho and won't bother me much to-morrow. I have been very busy again to-day going over things with borrowers altho I didn't get much money. I had to renew that Arslan paper and I have a complete statement of their actual condition. The last statement I sent is all wrong. That fellow don't understand English and to-day I got hold of the older brother who is quite well educated and I have it lined up. We won't get anything on that until April, likely \$2000.00 then and a cleanup in July, not out of hop sales but out of advances on new contract for 1921 crop. We have this covered by an assignment of amounts called for in contract now. The contract calls for \$17,000.00 to be ad-

vanced in April, July and September, and I think we are safe on it now. The total is \$5000.00.

I keep running on to little stuff where fellows paid somebody else and have nothing left of their crops. You are right when you say you have to grab the money when they sell something. Cash is a pretty scarce article around here and when a farmer gets a little of it, somebody soon separates him from it. A \$1,000 which I had figured on slipt away in a peculiar manner. Clyde Lee who owes that amount was in here a short time ago and agreed to sell enuf cattle to clean us up and I had confidence in him that he would do it. He had some cattle near Toppenish feeding them some cheap hay and drove them off alone to some unknown person in that section and apparently sold them. Saturday the 15th he phoned his wife that he would be home the following Sunday. That night he wrote her a letter in a Toppenish hotel to the effect that he had collected \$300.00 cash on the cattle and would get the balance in February and they would then have enough to pay all their debts including the bank which he mentioned in the letter. Lee has never been seen or heard of since. He registered at that hotel but the bed indicated that he had not used it. The postmaster states that the letter was mailed between 6 and 8 that Saturday night. A piece of a kind of car case with his identification in the face was found in a freight shed at Toppenish on Monday. That is the only clue and it seems he has been snatched off of the earth as searching parties

have given up hopes. Old man Davis who has known Clyde Lee for 13 years says there is absolutely no chance of him beating it with the money and leaving his family and that it is no question but a case of foul play. Lee has \$6,000 insurance but his statement doesn't indicate what companies. Don't know if any Western Union or not. Mr. Rutter might have this checked up. Haven't seen Ross about it yet. It is likely that he was knocked in the head for the \$300 he had on him and his body dumped into some canyon. Believe me, the times are beginning to show up on the unemployed and Toppenish and Yakima have some tough nuts hanging around. To-night as I was on my way to the bank, crossing the tracks where it is not very light, a big rough looking fellow stopt me and said in a gruff tone "Give me a half a dollar to get something to eat." There weren't any people near and it was kind of dark and as he didn't ask for a very large sum, I quietly handed him the four bits which he grabbed and walked off. I thot that was the healthiest and most economical way out and as he talked in such a firm, determined tone, I didn't go into details with him either nor argue the question with him. Something told me to close the transaction quickly and make a get away without trying to Jew him down any or discourage the idea for in the meantime, if no people showed up, he might begin to think that 50¢ wasn't enough and might invite me to step in the dark behind the warehouse and enter into negotiations for more. There is a gang of them here. Sunday night they

held a parade and street speeches. They are getting so bold that in one instance they pushed their way into a cheap rooming house one night and slept there in spite of the proprietor's efforts to the contrary.

Well, I must beat it to bed. I'm not much good for business to-night, but will be feeling better in the morning I am sure. I look forward to your letters as the event of the day and any encouragement and assistance or suggestions help a lot right at this time. You see I don't know [149] just how far you can go on S. B. and since he has resigned from the board, it must put it down to a clean cut proposition.

Sincerely yours,
(Signed) W. F. BUCHHOLTZ.

January 25, 1921.

W. T. Triplett, Vice-Pres.,
Spokane & Eastern Trust Co.

Dear Sir:

With reference to the draft on William Joseph, Pittsburgh, \$2,060.20, received by you on December 9th:

This is one of E. S. Small's drafts and as Small is out of the city for a few days, I am unable to get in touch with him, to run it down.

I am, however, wiring William Joseph today asking reasons for non-payment and will let you know of any results as soon as I hear from him.

Very truly yours,
W. F. BUCHHOLTZ,
(Signed) W. F. BUCHHOLTZ.

After the close of all the evidence and after the case had been argued, the following stipulation was entered into between the attorneys for the Spokane & Eastern Trust Company, for the Central Bank & Trust Company, and for the plaintiff, to wit:

In this cause the Court having ruled that defendant, Spokane & Eastern Trust Company is entitled in the decree to have provision made for the return to it of all promissory notes and choses in action, being the rediscounts and securities charged-back against the Central Bank and Trust Company by the Spokane & Eastern Trust Company by the close of business on the 25th day of January, 1921, a list of which is hereto attached, the defendant Central Bank and Trust Company and E. L. Farnsworth, as Director of Taxation and Examination of the State of Washington, contest the right of defendant Spokane & Eastern Trust Company to such a provision in the decree. However, as the court has so ruled and as it will be necessary to take some details of evidence to identify these several items, either before the Court or before the Master, and the defendant E. L. Farnsworth, as Director of Taxation and Examination of the State of Washington, and Central Bank and Trust Company object to the taking of any further evidence in that behalf, but the Court having ruled it may be taken, now without waiving the objections above expressed, or any of them, or any other objection

which might be taken to the said defendants the Central Bank and Trust Company and the said E. L. Farnsworth, in said respects, or any of them, but solely for the purpose of saving the time and labor of making the formal proof, IT IS STIPULATED that such further evidence, if taken, would show the following to be a correct list of said promissory notes and choses in action so charged-back:
[151]

MAKER	PAYEE	AMOUNT	DATE
Brown, C. O.	Central Bank & Trust Co.	\$4,600.00	Oct. 25, 1920
Interest to Jan. 25, 1921		.90	
Paddock, H.	"	1,500.00	Dec. 20, 1920
Interest to Jan. 25, 1921	"	1.75	
McDermid, A. A. &			
McDermid, R. C.	"	500.00	Dec. 20, 1920
Interest to Jan. 25, 1921		.58	
Baldozer, A. E.	"	1,100.00	Dec. 20, 1920
Interest to Jan. 25, 1921		1.22	
Kimura, J.	"	3,000.00	Dec. 23, 1920
Interest to Jan. 25, 1921		1.75	
Sunset Fruit & Produce Co.	"	4,000.00	Dec. 23, 1920
Interest to Jan. 25, 1921		2.33	
Small, E. S.	"	5,500.00	Dec. 23, 1920
Interest to Jan. 25, 1921		3.21	
K. T. Produce Co.	"	3,000.00	Nov. 18, 1920
Interest to Jan. 25, 1921		4.67	
Campbell, M. B.	"	2,200.00	Dec. 17, 1920
Interest to Jan. 25, 1921		3.42	

Dated this 24th day of July, 1922.

GRAVES, KIZER & GRAVES,
Attorneys for Spokane & Eastern Trust Company.

R. J. VENABLES and
H. B. RIGG of Counsel,
Attorneys for Central Bank & Trust Company.

PETERS & POWELL,
Attorneys for United States Steel Products Com-
pany. [152]

Certificate of Judge to Statement of Evidence.

I, F. H. Rudkin, Judge of the above-entitled court, and the Judge before whom this cause was tried, find the foregoing statement and abstract of evidence to be a true and complete statement of the evidence given upon the trial of the cause, and that it is properly prepared; and I hereby approve it as a statement of the evidence to be filed in this cause and used on appeal herein.

The Clerk is directed to file such statement in this cause and make it a part of the record herein for the purposes of appeal.

Dated 5th January, 1923.

FRANK H. RUDKIN,
Judge. [153]

[Endorsed]: Number 881. Statement of Evidence on Appeal. Filed in the U. S. District Court Eastern Dist. of Washington. Jan. 6, 1923. Alan G. Paine, Clerk. Edw. E. Cleaver, Deputy.
[154]

In the District Court of the United States for the
Eastern District of Washington, Southern
Division.

UNITED STATES STEEL PRODUCTS COM-
PANY,

Plaintiff,

vs.

SPOKANE & EASTERN TRUST COMPANY,
CENTRAL BANK AND TRUST COM-
PANY, and E. L. FARNSWORTH, as di-
rector of Taxation and Examination of the
State of Washington,

Defendants.

Petition for Appeal.

The petition of the Spokane & Eastern Trust Company, a defendant herein, respectfully represents:

The defendant Spokane & Eastern Trust Company is aggrieved by the judgment and decree rendered herein signed 25th July, 1922, and filed 27th July, 1922, wherein and whereby judgment was given in favor of the plaintiff and against the defendant Spokane & Eastern Trust Company in the sum of forty-four thousand nine hundred forty-three and 84/100 (\$44,943.84) dollars, together with interest thereon at the rate of six per cent per annum from 24th January, 1921, and for the costs of the action, and by all other relief awarded in said judgment and decree in favor of plaintiff and

against this defendant, and for the reasons specified in the assignment of errors filed herewith the defendant Spokane & Eastern Trust Company desires to appeal from said decree to the Circuit Court of Appeals for the Ninth Circuit.

Said defendant presents herewith and makes a part of this application an assignment of errors in this cause and tenders a bond in such amount as the Court may require for the purposes of the appeal, and prays that the petition may be allowed and that a transcript of the entire records, proceedings, testimony and papers upon which the said decree was made, duly authenticated, shall be sent to the Circuit Court of Appeals for the Ninth Circuit in the manner and form and at the [155] time prescribed by law and by the rules of said Circuit Court of Appeals.

Said defendant prays for all orders necessary in the premises and for general relief.

F. H. GRAVES,
W. G. GRAVES,
B. H. KIZER,

Solicitors for Defendant Spokane & Eastern Trust
Company.

[Endorsed]: Filed in the U. S. District Court, Eastern District of Washington. Filed Jan. 6, 1923. Alan G. Paine, Clerk. By Edwd. E. Cleaver, Deputy. [156]

In the District Court of the United States for the
Eastern District of Washington, Southern
Division.

UNITED STATES STEEL PRODUCTS COM-
PANY,

Plaintiff,

vs.

SPOKANE & EASTERN TRUST COMPANY,
CENTRAL BANK AND TRUST COM-
PANY, and E. L. FARNSWORTH, as Di-
rector of Taxation and Examination of the
State of Washington,

Defendants.

Assignment of Errors.

The defendant Spokane & Eastern Trust Com-
pany, being desirous of appealing to the Circuit
Court of Appeals for the Ninth Circuit from the
final decree rendered in this cause, bearing date
25th July, 1922, and filed 27th July, 1922, submits
the following assignment of errors which it asserts
and intends to urge on such appeal.

The District Court erred:

I. In holding that the allegations of the com-
plaint were supported by the proof save with re-
spect to the particular manner in which the check
of the Yakima Hardware Company was paid.

II. In holding that the transactions between
the Central Bank & Trust Company and Spokane
& Eastern Trust Company were contrary to sound
law and good morals.

III. In holding that the relation of trustee and *cestui que trust* subsisted between the Central Bank & Trust Company and plaintiff with respect to the proceeds of the check of the Yakima Hardware Company which the Central Bank collected for plaintiff.

IV. In holding that the relation of trustee and *cestui que trust* subsisted between the Spokane & Eastern Trust Company and plaintiff.

V. In holding that the proceeds of the check aforesaid was traceable as a trust fund in the hands of either the Central Bank & Trust Company or the Spokane & Eastern Trust Company. [157]

VI. In refusing to dismiss the action as against the Spokane & Eastern Trust Company for want of equity.

VII. In rendering a decree for any relief or in any amount in plaintiff's favor and against defendant Spokane & Eastern Trust Company.

VIII. Finally, if it be held that plaintiff was entitled to any relief against the defendant Spokane & Eastern Trust Company, then the District Court erred in not reducing the amount of the recovery by the amount of the drafts drawn upon the Spokane & Eastern Trust Company by the Central Bank & Trust Company and paid by the former prior to the time it was informed of the draft for \$51,188.04 drawn upon it by the Central Bank & Trust Company in favor of the Seattle National Bank and of the circumstances surrounding the drawing of such draft.

WHEREFORE, the defendant Spokane & Eastern Trust Company prays that the said decree be reversed and that the District Court be directed to dismiss the action as to such defendant.

F. H. GRAVES,

W. G. GRAVES,

B. H. KIZER,

Solicitors for Defendant Spokane & Eastern Trust Company.

[Endorsed]: Filed in the U. S. District Court, Eastern District of Washington. Filed Jan. 6, 1923. Alan G. Paine, Clerk. By Edwd. E. Cleaver, Deputy. [158]

In the District Court of the United States for the Eastern District of Washington, Southern Division.

UNITED STATES STEEL PRODUCTS COMPANY,

Plaintiff,

vs.

SPOKANE & EASTERN TRUST COMPANY,
CENTRAL BANK AND TRUST COMPANY, and E. L. FARNSWORTH, as Director of Taxation and Examination of the State of Washington,

Defendants.

Order Allowing Appeal.

Upon consideration of the petition and an assign-

ment of errors presented therewith, it is ordered that an appeal be allowed to the defendant Spokane & Eastern Trust Company from the decree rendered in this cause dated 25th July, 1922, and filed 27th July, 1922, wherein and whereby judgment was rendered against the said defendant in favor of plaintiff in the sum of forty-four thousand nine hundred forty-three and 84/100 (\$44,943.84) dollars, and for other relief, and that the appeal shall be returnable to the United States Circuit Court of Appeals for the Ninth Circuit upon the execution of a bond in the penal sum of one thousand (\$1,000) dollars.

It appearing that the defendants Central Bank & Trust Company and E. L. Farnsworth, as director of taxation and examination of the State of Washington, have in writing stated that they would not join the defendant Spokane & Eastern Trust Company in its appeal herein and that they waived their right to so join,—

IT IS ORDERED that the defendant Spokane & Eastern Trust Company may prosecute its appeal independently of its codefendants and that they need not be joined as appellants with it for the purposes of this appeal. [159]

And it is still further ordered that a transcript of the record, in accordance with the provisions of law and the rules of the United States Circuit Court of Appeals for the Ninth Circuit, shall be authenticated and transmitted to the Court of Appeals as prayed.

Dated 5th January, 1923.

FRANK H. RUDKIN,
Judge.

[Endorsed]: Filed in the U. S. District Court, Eastern District of Washington. Filed Jan. 6, 1923. Alan G. Paine, Clerk. By Edwd. E. Cleaver, Deputy. [160]

In the District Court of the United States for the Eastern District of Washington, Southern Division.

IN EQUITY.

UNITED STATES STEEL PRODUCTS COMPANY,

Plaintiff,

vs.

SPOKANE & EASTERN TRUST COMPANY,
CENTRAL BANK AND TRUST COMPANY, and E. L. FARNSWORTH, As
Director of Taxation and Examination of the
State of Washington,

Defendants.

Bond on Appeal.

KNOW ALL MEN BY THESE PRESENTS, that we, the Spokane & Eastern Trust Company, as principal, and Fidelity and Deposit Company of Maryland, as surety, are held and firmly bound

unto the United States Steel Products Company in the sum of One Thousand Dollars, to be paid to the said United States Steel Products Company, its successors or assigns, to which payment well and truly to be made we bind ourselves and our successors, jointly and severally by these presents.

Sealed with our seals and dated this 5th day of January, in the year of our Lord one thousand nine hundred and twenty-three.

WHEREAS, at a term of the District Court of the United States for the Eastern District of Washington in the Southern Division thereof, in a suit depending in said court between the United States Steel Products Company, plaintiff, and the Spokane & Eastern Trust Company and others, defendants, a decree was rendered in favor of plaintiff and against the defendant Spokane & Eastern Trust Company; and

WHEREAS, the defendant Spokane & Eastern Trust Company has sued out an appeal to reverse such decree and has prayed the allowance of the appeal and citation directed to the United States Steel Products Company to be and appear at a session of the United States Circuit Court of Appeals for the Ninth Circuit; [161]

NOW, the condition of the above obligation is such that if the aforesaid Spokane & Eastern Trust Company shall prosecute its appeal to effect and answer all costs if it fail to make its plea good, then the above obligation shall be void; otherwise it shall

remain in full force and virtue.

SPOKANE & EASTERN TRUST COMPANY,

[Seal]

By CONNER MALOTT,

Its Vice-President.

B. M. CAMPBELL,

Secty.

FIDELITY & DEPOSIT CO. OF MARY-
LAND,

By S. M. SMITH,

Attorney-in-Fact.

[Seal]

Attest: W. S. McCREA,

General Agent.

The foregoing bond is approved for the purposes
of the appeal herein, 5th January, 1923.

FRANK H. RUDKIN,

Judge.

[Endorsed]: Filed in the U. S. District Court,
Eastern District of Washington. Filed Jan. 6,
1923. Alan G. Paine, Clerk. By Edwd. E.
Cleaver, Deputy. [162]

[Endorsed]: No. 3983. United States Circuit
Court of Appeals for the Ninth Circuit. Spokane
& Eastern Trust Company, a Corporation, Appel-
lant, vs. United States Steel Products Company,
a Corporation, Appellee. Transcript of Record.
Upon Appeal from the United States District

Court for the Eastern District of Washington,
Southern Division.

Filed February 3, 1923.

F. D. MONCKTON,
Clerk of the United States Circuit Court of Ap-
peals for the Ninth Circuit.

By Paul P. O'Brien,
Deputy Clerk.

In the Circuit Court of Appeals for the Ninth
Circuit.

SPOKANE & EASTERN TRUST COMPANY,
Appellant,

vs.

UNITED STATES STEEL PRODUCTS COM-
PANY,

Appellee,

and

CENTRAL BANK & TRUST COMPANY and E.
L. FARNSWORTH, as Director, etc.,

Defendants.

**Statement of Errors for Purpose of Printing
Record.**

The appellant will rely upon the following errors
in presenting its appeal herein, to wit:

The District Court erred:

1. In holding that the transactions between the
Central Bank & Trust Company and the Spokane

& Eastern Trust Company were contrary to sound law and good morals.

2. In holding that the relation of trustee and *cestui que trust* subsisted between the Central Bank & Trust Company and the United States Steel Products Company with respect to the proceeds of the check of the Yakima Hardware Company which the Central Bank collected for the United States Steel Products Company.

3. In holding that the relation of trustee and *cestui que trust* subsisted between the Spokane & Eastern Trust Company and the United States Steel Products Company.

4. In holding that the proceeds of the check aforesaid were traceable as a trust fund in the hands of either the Central Bank & Trust Company or the Spokane & Eastern Trust Company.

5. In refusing to dismiss the action against the Spokane & Eastern Trust Company for want of equity.

6. In rendering a decree for any relief or in any amount in favor of the United States Steel Products Company and against the Spokane & Eastern Trust Company.

7. If it be held that United States Steel Products Company was entitled to any relief against the Spokane & Eastern Trust Company, then there was error in not reducing the amount of the recovery by the amount of the drafts drawn upon Spokane & Eastern Trust Company by the Central Bank & Trust Company and paid by the former prior to the time it was informed of the draft for \$51,188.04

drawn upon it by the Central Bank & Trust Company in favor of the Seattle National Bank and of the circumstances surrounding the drawing of such draft.

F. H. GRAVES,
W. G. GRAVES,
B. H. KIZER,

Solicitors for Spokane & Eastern Trust Company.

[Endorsed]: No. 3983. In the Circuit Court of Appeals, for the Ninth Circuit. Spokane & Eastern Trust Company, Appellant, vs. United States Steel Products Company, Appellee. Statement of Errors for Purpose of Printing Record. Filed Jan. 25, 1923. F. D. Monckton, Clerk. Re-filed Feb. 3, 1923. F. D. Monckton, Clerk.

Service of the within Statement of Errors accepted this 17th day of January, 1923.

PETERS & POWELL,
Attorneys for Appellee.

In the Circuit Court of Appeals for the Ninth
Circuit

SPOKANE & EASTERN TRUST COMPANY,
Appellant,

vs.

UNITED STATES STEEL PRODUCTS COM-
PANY,

Appellee,

and

CENTRAL BANK & TRUST COMPANY and
E. L. FARNSWORTH as Director, etc.,
Defendants.

Designation of Parts of Record to be Printed.

The appellant designates for printing the following portions of the record which it thinks necessary for the consideration of the errors on which it intends to rely on appeal, as shown by the statement of errors heretofore filed herein, to wit:

Complaint.

Answer of defendant Spokane & Eastern Trust Company.

Answer of defendants Central Bank & Trust Company and E. L. Farnsworth as Director of Taxation and Examination of the State of Washington.

Memorandum opinion of Judge Rudkin ordering the entry of a decree in the plaintiff's favor.

Stipulation entered into between the attorneys for all the parties dated 24th July, 1922, relative to certain promissory notes and choses in action which had been charged back by the Spokane & Eastern Trust Company to the Central Bank & Trust Company and returned to the latter company.

Decree.

Stipulation for the signing and certifying of the statement of evidence.

Statement of evidence.

Petition for appeal.

Assignment of errors.

Order allowing appeal and fixing bond.

Bond on appeal.

F. H. GRAVES,
W. G. GRAVES,
B. H. KIZER,

Solicitors for Spokane & Eastern Trust Company.

[Endorsed]: No. 3983. In the Circuit Court of Appeals, for the Ninth Circuit. Spokane & Eastern Trust Company, Appellant, vs. United States Steel Products Company, Appellee, and Central Bank & Trust Company and E. L. Farnsworth as director, etc., Defendants. Designation of Parts of the Record to be Printed. Filed Jan. 25, 1923. F. D. Monckton, Clerk. Re-filed Feb. 3, 1923. F. D. Monckton, Clerk.

Service of the within Statement of Errors accepted this 17th day of January, 1923.

PETERS & POWELL,
Attorneys for Appellee.

